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THE LURE OF GOLD

Cover Story on Page V

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The Lure of Gold

[THE JOURNAL COVER ILLUSTRATION: FROM A PAINTING BY WALTER DE MARIS]

THE figure on this month's cover is hardly the man to be credited with the settlement of whole regions or the building of cities; nevertheless cities often have followed the dreams of such men, and years after them their work remains a potent factor in the rise and fall of prices.

A strange class are the prospectors who year by year are wandering over the face of the earth in search of gold. Living alone in the wild lands, self removed from communion with mankind and the comforts of civilization, they plod on in their solitary ways.

There is a lure to prospecting as there is to any other game where the chances against success are multitudinous, and the prize, if one should win, is immense. There is a lure, also for many men in the solitudes where they live close to nature and are unrestrained by the conventionalities of the towns. There is especially a lure to the desert; the strength of which few persons who have not experienced the spell can understand, for in those wastes nature casts a strange influence over the dweller.

The veteran and confirmed prospector needs no pity. With him, it is *the* life. He is not alone. Nature and his dreams attend him. Hope leads him on.

If one were to make a list of the migrations that have been started, the settlements that have been initiated by the lonely wandering prospectors, the length of the list may be suggested by a few names—California, Alaska, South Africa.

Too much gold, or too little, or a maldistribution of gold, does not enter into the cogitations of the prospector, as he travels East, West, North and South.

LIKE the prospector for gold, many men constantly are searching the wide and barren domains of their minds in search of a golden idea. Some spend a considerable part of their lives in a quest over a mental region, which, as far as results are concerned, is only desert. Others like Edison, Bell, McCormick find their gold and enrich the world by their findings.

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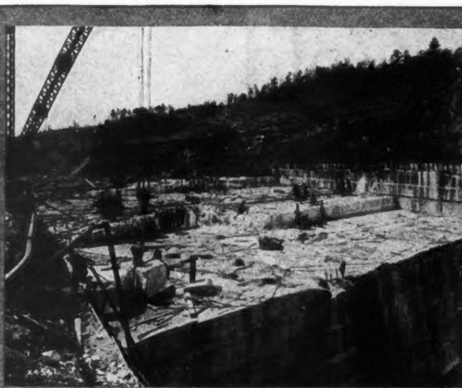

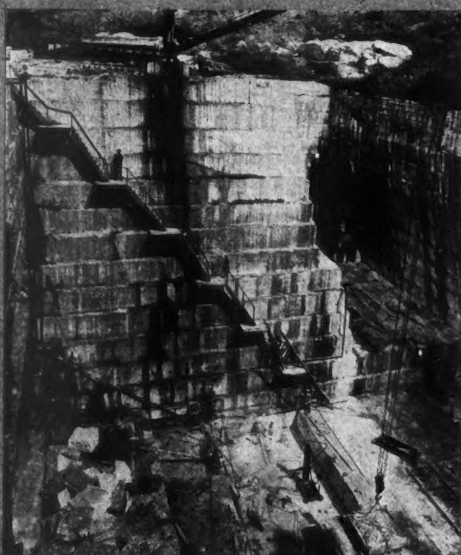

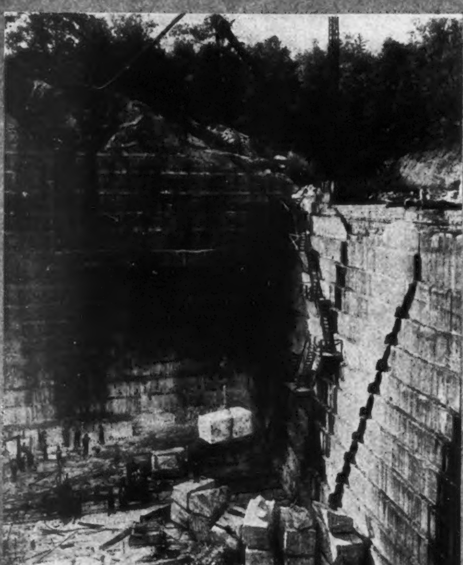

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This Month's Journal *and* Your Own Bank

IF every banker in America took eleven minutes out of July for the purpose of reading Frank W. Simmonds' article on "The High Cost of Deposits," bank profits would increase and bank service would be correspondingly strengthened.

Interest rates on all classes of deposits have been moving steadily toward lower levels during the past two years. Most bankers know that this movement should be extended for the good of banking, but heretofore they have not been sure that reductions could be made without jeopardizing their deposits. Mr. Simmonds' article offers facts obtained from banks in every state of the Union, from state associations, clearinghouses and state banking commissioners, indicating that reductions in interest rates have resulted invariably in greater profits. The survey, sponsored by the Bank Management Commission of the American Bankers Association, has only one clear message for all banks which still feel obliged to pay more for deposits than they are worth, and that is to act. It contains other important information bearing on interest rates and this has been summarized by Mr. Simmonds. It is shown, for instance, that reductions can be effected most successfully through clearinghouse action or other group effort. Convincing proof is furnished that bankers from Maine to California are a unit in recognizing the need for immediate action. Still more important is the mathematical evidence that the declines which have taken place already in interest rates are small compared with the decrease in general level of money rates and the yields on first grade bonds, commercial paper and acceptances.

THOMAS B. PATON, under the title "Judicial Guidance in Trust Work," discusses the question of a trust company's responsibility in the matter of holding or selling securities left by a testator. "The purpose of this article," he wrote, "is to direct attention to the desirability, if not the necessity, of an established procedure, under which a corporate trustee may seek the advice and guidance, with the effect of judicial sanction, of a court of equity to meet the dilemma whether to retain or sell securities or other trust property and to solve other troublesome questions of trust management." By contrasting two important recent decisions—one by the Surrogate of Westchester County, N. Y., and the other by the Surrogate of Kings County, N. Y., Judge Paton focuses attention on the problem confronting trust men.

ALLAN HERRICK describes how the late "Buy Now" movement resulted in 1930 in a growth of $267,000,000 in the total volume of savings in the United States. "The effect of this barrage of propaganda," he says, "was exactly the opposite of what was expected. The public not only failed to spend its money more freely, but on the contrary, it turned to thrift and savings with a determination and persistence not exhibited in this country in years." Mr. Herrick has written an epitaph to the doctrine of wasteful spending as a basis for prosperity. He has written, moreover, the history of thrift, the evolution of thrift and the psychology of thrift with logic enough to convince a skeptic that the impulse to save is as much a part of human beings as fingers and toes.

THE Kremlin takes pride in regarding money as an evil abhorrent to Communism. Efforts have been made in the past to abolish currency or discourage its use, but these moves have been full of contradictions. No attempts have been made in Russia to abolish currency that is sound. Only when unskilful methods of public finance have sapped the value of the ruble has Russia's hatred for money become fervent. Robert Crozier Long describes Russia's latest substitute for money. Step by step the transactions ordinarily requiring

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currency are being put on a non-currency basis, which, in Russia means that the money required for these transactions is given a different name and a different form. Workmen, for instance, line up at the pay windows and receive, not money or checks or anything with the faintest odor of capitalism about it, but wares-certificates authorizing them to buy certain necessities at the retail stores. Money for taxes has been dispensed with by the device, even more simple, of permitting "savings banks" to subtract from depositors' balances whatever the government thinks is right.

ROLF NUGENT, in "Why Wage Earners Go Bankrupt," asks what is wrong with American wage earners that the number of bankrupts in this class should increase from 6000 in 1920 to 29,000 in 1930. According to the Department of Commerce figures, the number of wage earners discharged in bankruptcy during the year ending June 30, 1930, almost equalled the total number of discharged bankrupts in other occupations combined. The increase, says Mr. Nugent, shows no sign of ceasing and if the present rate of increase in wage earner bankruptcy should continue for another ten years, one out of every fifteen wage earner families in the country would be potentially bankrupt. The reason, this writer thinks, is the post-war credit racket, an institution which is described graphically in his article.

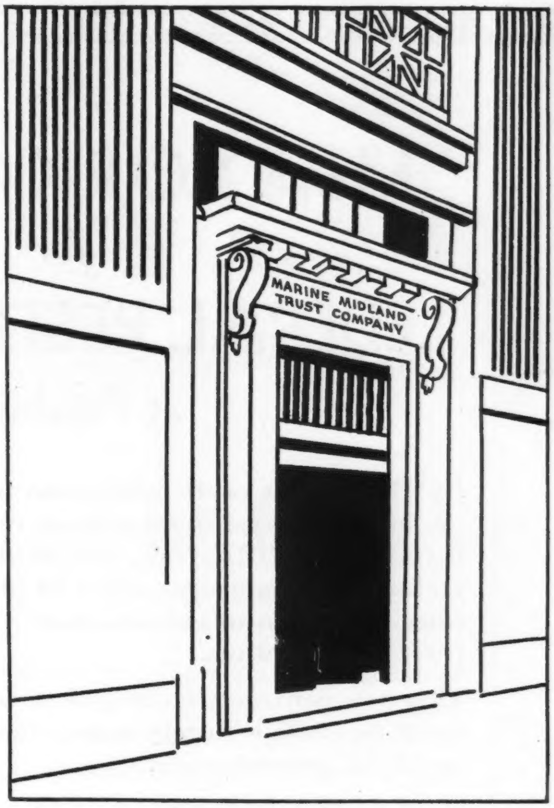
"TRUST Work in National Banks" is the title of an article by Aubrey B. Carter which furnishes in brief form information about the growth of fiduciary business in national banks and summarizes the principal regulations under which the trust departments of national banks operate. The figures are enlightening because Mr. Carter has grouped them skilfully. Statistics on this subject tell a story that every banker should know. Two important parts of this article deal respectively with directors and examiners. Concerning the responsibility of directors there are 300 words —seven paragraphs—which should be marked with blue pencil and distributed to directors. Among the tasks of examiners appointed by the Comptroller of the Currency Mr. Carter lists seeing "that the assets of the trust department reflect lawful and efficient management of the trusts committed to it." In the board of directors, he writes, "is lodged the responsibility for the prudent, safe and efficient operation of the trust department. Consequently, it is essential that it not only establish a sound invest-

ment policy but that it continuously review specific action of the trust department. *Cestui que* trusts properly look to the board for redress if there is any dereliction anywhere along the line in the handling of securities."

A. G. EVERETT discusses real estate loans and how to distinguish those of good quality from the kind that freeze easily. Even the best of mortgages can interfere with the liquidity of a bank's position. At a time like this, therefore, the proportion of a bank's total loans and investments represented by loans on real estate, becomes one of transcendent importance. He cites figures showing the swift growth in bank holdings of real estate securities in recent years. Reporting banks on June 30, 1928, held real estate mortgages, trusts and other real estate securities to the amount of $6,381,431,000, or 10.9 per cent of their total loans and investments. Two years later the volume was $10,445,710,000, or 17.9 per cent of their total loans and investments. He sees no possibility of fixing an arbitrary limit on the proportion of such loans without working a hardship on small banks and the communities which they serve. The answer, he declares, "depends on the good judgment and conservative policies of the local banker."

WHEN President Hoover announced his plan for a one-year moratorium on war debts and reparations, he said: "The fabric of intergovernmental debts, supportable in normal times, weighs heavily in the midst of this depression." Without touching on the merits of the plan or the reasons why its announcement should have added materially to security values throughout the world, A. Cloyd Gill has written an article defining the proposed moratorium in terms of dollars and cents. The suspension of all international payments on war obligations is a project of gigantic dimensions. The amounts involved are so complex and cumbersome that many persons may class them with the calculations of astronomers. Bankers, however, are under obligations to know what lies behind Mr. Hoover's plan because the outcome affects their business. Regardless of any action which might be taken hereafter with reference to the plan, the willingness of the United States to forego payments for one year will remain for a long time a factor to be reckoned with in the economic affairs of the world. Mr. Gill lets the figures tell the story.

"A PLAN FOR BANKS" is an article summarizing the work of the recent Annual Convention of the American Institute of Banking at Pittsburgh. The program of this meeting contained impressive evidence that banking is not following a haphazard course and that the future of banking is in good hands.



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AMERICAN BANKERS ASSOCIATION JOURNAL

The High Cost of Deposits

By FRANK W. SIMMONDS
Deputy Manager, American Bankers Association

The Movement toward Lower Interest Rates on All Classes of Bank Balances Is Nationwide. Downward Trend of Money and Small Returns on Sound Investments Have Compelled Banks to Reduce Interest to Depositors in Order to Insure Adequate Profit.

A MAJORITY of banks are paying more for deposits than the prevailing money rates justify. They are giving depositors the benefit of an interest rate that is higher than the returns obtainable from safely invested funds. Two years ago when the yield on United States Treasury notes and certificates exceeded 5 per cent, when the yield on Treasury bonds was approximately 3¾ per cent, when high grade bonds could be bought at 94 and 95, when the Federal reserve discount rate stood at 5 per cent in all districts, when the open market rate on prime ninety-day acceptances was 5½, and the best commercial paper up to six months was quoted at 6 per cent and call money was averaging more than 8—two years ago a bank might have paid generously for deposits and still earned a profit.

Regardless of Money Rates

THERE is no reason of course, why rates paid on deposits should be wholly contingent on fluctuations in the money market, and there are many reasons why they should not be; yet the present wide discrepancy between the price which bankers pay for funds and the price they receive for them, serves to emphasize the need for remedial action. The point stressed here is that regardless of the future ups and downs of money rates and bond prices, banks, generally speaking, pay an unnecessarily high rate for the savings and surplus funds of their communities.

Even one year ago Treasury bonds could still be bought to yield 3.4 per cent, the buying rate on acceptances still ruled up to 3 per cent and prime commercial paper had yet to touch 3 per cent. Today the discount rate of the Federal Reserve Bank of New York stands at 1½, the lowest reserve bank rate ever established in the United States, the prevailing rate on prime commercial paper, four to six months, is from 2 to 2¼ per cent, prime ninety-day acceptances are quoted at less than 1 per cent, call money is priced between 1 and 2 per cent and the yield on Treasury notes and certificates, three to six months, has shrunk to six-tenths of 1 per cent. The same trend, although less marked, has occurred in the rates which banks charge customers for loans. Two years ago this rate, taking the country as a whole, was around 6 per cent, whereas today the average is probably not much more than 4½ per cent.

If the financial structure of the nation is to remain sound banks must preserve their strength and one excellent means of accomplishing this objective is for banks to earn a reasonable profit. Confronted by this obligation to their communities and to themselves banks have reduced operating expenses to a minimum, they have introduced efficient methods into management and sought by every means to obtain sound investment advice. They have taken important steps toward the elimination of free services. These changes have helped the situation but have not checked the greatest of all drains on banking revenues, the high cost of deposits. It has been estimated by competent authorities that between 30 and 45 per cent of the gross earnings of banks in the United States is turned back to depositors in the form of interest. Moreover it is disclosed in a survey conducted not long ago under the auspices of the American Bankers Association that a major portion of the profits of banks are attributable, not to their operation as banking institutions, but to the investment of stockholders' funds.

A Comprehensive Survey

IN order to encourage immediate action toward lowering of interest rates on deposits, and to obtain accurate information regarding the extent and results of such reductions as have taken place already, the Bank Management Commission of the American Bankers Association assembled facts bearing intimately on this situation. Replies were received from more than 1,400 banks in all parts of the country.

The purpose of the survey, as stated in the questionnaire, was primarily to determine what effect lowering of interest rates has had on the volume of deposits, and secondly to discover information about the general level of rates now being paid.

The country was divided into four regions. The first included the eastern and northeastern states of New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, West Virginia, Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island and Washington, D. C. The second region comprised North Carolina, South Carolina, Kentucky, Tennessee, Georgia, Alabama, Arkansas, Mississippi, Louisiana, Texas, Oklahoma and Florida. The third region was made up of Ohio, Indiana, Michigan, Illinois, Wisconsin, Iowa, Minnesota, Kansas, Nebraska, North Dakota, South Dakota and Missouri. The fourth region included the western states of Arizona, Colorado, New Mexico, Nevada, Wyoming, Oregon, Washington, California, Utah, Montana and Idaho.

The survey disclosed an unmistakable and nation-wide trend toward lower interest rates on deposits. It disclosed also that reductions were being put into effect without any appreciable loss in volume of deposits, particularly where the banks of a community have acted together and have accompanied action by a constructive education of the banking public. And, more to the point, it produced facts which can be put to instant, practical use by banks and groups of banks which have not yet cut their rates on deposits or are contemplating further cuts. It might be stated here that the type of person from whom replies were received is a guarantee that our information is correct and our conclusions reasonable. The signers of the questionnaires included presidents and executive officers of banks in every state of the Union; state association officers; the presidents and secretaries of clearing-house associations; the Comptroller of the Currency; and bank commissioners of various states.

Few Withdrawals

THREE hundred and ninety-seven banks of Region One responded to the Commission's inquiry. Two hundred and sixty-seven of these have reduced interest rates on one or more classes of deposits since January 1, 1929. The total number of reductions reported by the 397 banks on all classes of deposits was 535 and of this number only fifty-three instances were reported where the reductions were followed by a decrease in deposits. In other words in 482 cases of interest rate cuts out of 535 the action caused no withdrawal of balances by depositors. In many instances banks reported increases in balances after a rate reduction had been put into effect.

Of the 397 reporting banks in Region One, 224 stated that the rate reductions now in effect were carried out through clearing-house cooperation or under some other form of concerted action. Of the 535 interest reductions in four classes of deposits 184 affected commercial accounts, 136 affected time certificates of deposit, 109 concerned public funds and 106 affected savings accounts.

Further analysis of these replies reveals certain very interesting data on minimum balance requirements. In only five instances was this figure as low as $200. A few replies indicated $300 as the minimum balance on which interest was being paid. The figure $500 is more frequent and $1,000 is the most frequent of all, although quite a large number stated that their minimum was $5,000. The highest required balance is $25,000 and this figure occurred once. More than two-thirds of the reporting banks said that it was their policy to deduct a free balance before computing interest.

Eighty of the 397 banks reported that they paid no interest at all on commercial accounts. Seventy-two gave such replies as: "on a few," "on a very few," "on some," "in special cases" and the like. In other words 152 replies, or 40 per cent of the total, said that no interest was paid or the practice was greatly restricted. In general the survey of Region One revealed that the average rate of interest paid on savings accounts had dropped from 4.06 per cent on January 1, 1929, to 3.38 per cent on June 1, 1931. The average rate on commercial accounts in the same period had fallen from 2.36 per cent to 1.42. The rate on

(Continued on page 31)

Judicial Guidance in Trust Work

BY THOMAS B. PATON
General Counsel, American Bankers Association

What Is the Responsibility of Corporate Trustees in Retention of Securities Held Under Wills? Do Fiduciaries Have Right to Receive Advice and Sanction of Court? Is Such Procedure Desirable if Legal? How the Problem Is Met in North Dakota.

THE question of responsibility of trust companies and of banks conducting trust departments which act as trustees of estates created by will, in the matter of retention or disposition of securities left by the testator, especially those of a speculative nature and subject to market fluctuations, is one of increasing importance.

The Clark Case

THIS question was brought to the fore by a decision of the Surrogate's Court of Westchester County, New York (in re: Clark's Will, 242 N. Y. Supp. 210) now pending on appeal, wherein a trust company was surcharged for losses sustained through the decline in value of certain sugar stocks which had been held for seven years, although the will of the decedent expressly authorized that the securities be continued as investments. We reviewed this decision at length in an article in the August, 1930, JOURNAL under the caption "An Object Lesson in Trust Management." Notwithstanding the trust company retained these securities in good faith, on the advice of counsel, in accordance with the best judgment of its board of directors and even though the testator authorized the trustee to continue the investments, the court held the trust company was not justified in so doing, but was negligent and it remarked that much more is expected from a trust company than from an individual trustee in view of the special qualifications which these institutions claim to possess. The court pointed out that the law "imposes upon trustees, the duty to employ such diligence, prudence, sagacity, and vigilance in the care and management of an estate as prudent men of discretion employ in their own like affairs" but said that the retention of the securities beyond certain dates which it specified was "not consonant with a sound and safe discretion."

In the course of its reasoning, leading to its conclusion of negligence, the court said that "it was the trust company that determined to retain the securities for the trust fund and no one else. At no time during the period of seven years did it approach this court seeking advice or guidance with regard to the retention of said stocks."

In our article reviewing this case we said it would be an interesting speculation whether, if these stocks had been sold at the time when the court held they should have been and there had been a subsequent rise in the market, the legatee would have had a standing in court to complain that the stocks should have been held as authorized by the will and that the trust company should be surcharged with the difference. In view of the serious question thus presented in connection with many speculative stocks confided to trust companies, under authority of the testator to hold, whether it would be better to sell in the face of a declining market and sacrifice should the market rise or hold and incur the risk of liability for further loss should the market price not recover, and taking note of the language of the court that the trust company in the situation with which it was confronted had failed to seek its advice and guidance, our article suggested that "the safer procedure in all such cases would seem to be, instead of relying and acting upon the judgment of its own officers, to seek the advice and guidance of the court as pointed out in the opinion quoted above, whether to sell or retain.

Value of Judicial Sanction

THEN the trust company will be acting according to law and while the advice may in some instances be unsound economically — for it is at least debatable whether the judicial mind is better trained than that of the financier to foretell the future prices of stocks and the conditions which affect such prices—at all events the trust company will have the sanction of a judicial decree which will serve as a protection against liability."

Some doubt, however, is raised whether such procedure would be open to trust companies, at least in the state of New York, by a recent decision of the Surrogate of Kings County, New York, in the Matter of Guaranty Trust Company, reported in the *New York Law Journal* of June 5, 1931, from whose opinion we quote:

"The second question raised in this proceeding is in substance, an application by the corporate fiduciary for the advice and direction of this court respecting the business advisability of its abandonment of certain real property of the estate. In view of the familiar claims of corporate fiduciaries respecting their preeminent qualifications in the solution of such problems, the implied compliment to the business sagacity of the court is not inconsiderable. While, however, the inherent suggestion that the court possesses a prophetic vision in such matters, superior even to the asserted acumen of the advisory boards of corporate fiduciaries, is most flattering, fundamental principles prevent the assumption of this directive function. Perhaps the most basic guiding principle regarding testate estates is that testator's lawful desires are to be respected. In this connection he has manifested an unequivocal intention that his named fiduciary should conduct the business affairs of his estate and this course must be pursued. The executor has the power to abandon worthless assets of the estate. Whether or not the property in question is of this description is for the executor, and not for the court to decide (Matter of Ebbetts, 139 Misc. 250)."

Not a Question of Law

WAIVING comment upon the humorous inferences of the court, the real motive underlying an application for the advice and direction of the court is to obtain judicial sanction of a contemplated sale or disposition of trust property and thus escape liability where such action if taken may, when viewed retrospectively, be deemed unwise. The Ebbetts case referred to in connection with the above opinion and decided by the same Surrogate (in re: Ebbetts Will, 248 N. Y. Supp., 179, Feb. 13, 1931) was an application by trustees under a will (in this case individual trustees) for the advice and direction of the court regarding their action or non-action with respect to

voting upon certain shares of stock belonging to the estate, the shares constituting 50 per cent of the outstanding stock of a corporation which owned a base-ball park which had been leased to another corporation.

It was proposed to authorize a mortgage to increase the seating capacity and the question presented was whether the trustees should vote in favor of or against the mortgage. The court said that the question presented is "a question not of law but of business judgment in the conduct of the affairs of the corporations involved which question is imposed upon and must be solved by the executor-trustees by reason of their assumption of the office." While stating that the trustees acted wisely in joining in the application all interested persons and in presenting such unanimous opinions of experts in favor of favorable action that an unfavorable vote by the trustees would place upon them a heavy duty of explanation, the court said that "the final decision in the matter must be made by the trustees and not by the court. They have a legal right to take the action proposed, the advisability of which is not a question properly determinable by this court."

Difference of Judicial View

HERE, then, we see a direct difference of judicial view between the Surrogates of two counties in New York respecting the right of trustees to apply for judicial advice and guidance and the function of the court to grant it. The Westchester Court criticized a corporate trustee because at no time did it seek its advice and guidance respecting the retention of certain stocks; the court in Kings, on the other hand, declared it is not the function of the court but solely of the trustee to decide upon questions of business judgment, as distinguished from law, and that fundamental principles prevent the entertaining of an application for advice and direction as to the retention or disposition of trust property or mortgaging of such property through the voting of corporate shares. So far as the authority to direct the disposition of real estate by the trustee is concerned, there may be, in New York, some question as to the court's power; but the language of the Surrogate in Kings County, taken in connection with the decision in the Ebbetts case, indicates that the refusal to entertain an application for advice and direction would not be limited to real estate held in trust but would apply to corporate shares and other securities so held.

Decisions Holding Trustee Liable

THE question thus left unsettled whether or not a trustee under a will, when in doubt as to the wisdom of selling or retaining securities or real property held in trust because of market conditions or other circumstances, may seek the advice and guidance of the court, is one of considerable importance in view of the increasing number of cases in which trust companies have been held responsible for retaining securities too long. To obviate such responsibility, such procedure would seem desirable. Since the decision in the case of Clark's Will, discussed in our previous article, the Supreme Court of Massachusetts on April 21 of this year (Creed, Trustee, v. McAleer, U. S. D. June 11, 1931), charged an individual trustee under a will, who had received a number of stocks under order of court that they be sold within a reasonable time, with a loss sustained by retention of certain mining stocks beyond a reasonable time after he received them, although there was a substantial gain in the inventory values in the sale of all stocks. The trustee was not permitted to offset the loss on the mining stocks by the gain on the others.

In this case, however, so far as the opinion shows, there does not appear to have been any express authority in the will to hold securities. Still later, the New York Court of Appeals has handed down a unanimous decision (re: Judicial Settlement Account of Empire Trust Company and another, as Executors, *New York Law Journal*, June 20, 1931) affirming a decision of the Appellate Division, with certain modifications, holding executors liable because of the retention of certain stock which, while held, had declined in value from $200 per share to zero. We quote the pertinent portion of the opinion of the court:

"Corporate stock appraised at the date of the testator's death at a value of $200 per share was held by the executors until it became valueless. Their course was dictated or at least influenced by the expressed wish of the testator that the stock should be held as part of a trust fund. Toward the widow, who was a beneficiary of the trust fund, and who acquiesced in, if indeed she did not encourage retention of the securities, failure to sell was a misfortune, not a wrong. So the Appellate Division held. It also held that toward the testator's infant daughter, who was entitled to a one-ninth share of the estate, the executors were under a duty to sell the stock within a reasonable time and that in the exercise of reasonable care the executors could and should have sold the stock at the price of $200 per share not later than May 10, 1920. Though perhaps a trier of the facts might have reached opposite conclusions, the findings of the Appellate Division are not against the weight of evidence."

A Suggestion

DECISIONS of this character indicate the desirability of a procedure under which a trustee should have the right to ask and the court the power to give advice and guidance as to the wisdom of retaining or selling securities held in a trust capacity when circumstances arise requiring the exercise of business judgment, which court order would have the effect of judicial sanction. If the law is as stated by the Surrogate in Kings County, the court can only pass upon the question of business judgment after, and not before, the exercise of such judgment. While it is fundamental that a trustee derives his power, in the main, from the instrument creating the trust rather than from the law or act of court, it would seem within the power of courts of equity, which have jurisdiction of trusts, to entertain applications for their advice and guidance and to give direction in matters where the trustee is in doubt as to the proper procedure.

Without attempting an analysis of authorities, it is sufficient for our purpose to cite Bogart on Trusts, Section 101, in which it is stated: "Not only may the duty of the trustee regarding investments be controlled by the settlor, but also by chancery. If the trustee is in doubt concerning the investments which he should make, he may apply to the court and it will give him direction (citing authorities)." Also at Section 88 of the same work: "Chancery has authority to direct the trustee to sell the trust property whenever it appears to be necessary for the protection of the interests of the beneficiaries. In many states there are statutes regulating sales by trustees and providing when equity may decree a sale of the trust property."

So far as real estate held by trustees in the State of New York is concerned, the Court of Appeals held in 1917 (in re: O'Donnell, 116 N. E. 1001) in the case of an application by a trustee under a will to sell an infant's real estate, that the court does not possess, inherently, the power to order the sale or mortgaging of an infant's real property; and it abstained from deciding whether or not under the Real Property Law, the court was authorized to order the sale or mortgage of estates in remainder of adult parties without their consent. It would appear, therefore, that in the State of New York, so far as real estate held in trust is concerned,

(Continued on page 47)

The Attack That Failed

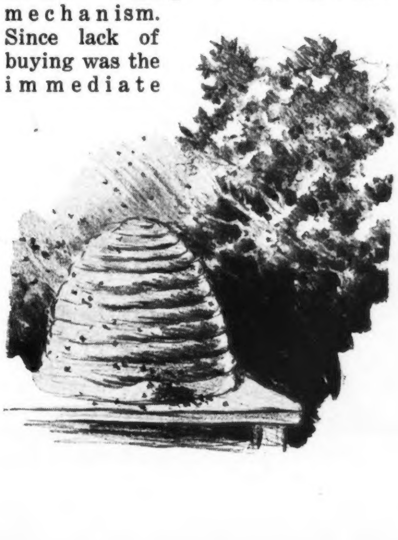
By ALLAN HERRICK
Advertising Manager, Security-First National Bank, Los Angeles

Spendthrift Doctrines Proved Popular but Not with the Consuming Public. The Human Instinct to Save Was Much Too Strong for a Temporary Barrage of Propaganda. Prudent Spending and Elimination of Waste Has Become the Order of the Day.

IN November, 1930, William Trufant Foster and Waddell Catchings, in an article entitled "Riotous Saving" in the *Atlantic Monthly*, let fall a bomb, the echoes of which are still reverberating. The authors set forth the theory that under the conditions of depression then existing and among certain classes of people, thrift had ceased to be a virtue and had become a vice. The country was suffering from over-production and under-consumption. In their opinion, we needed more people to spend money and fewer to save it. America already had too many mines, mills, factories, and workshops created through saving. To keep on would make conditions worse. To reach prosperity, we must curb the instinct of thrift and spend our money freely.

Easy and Popular

THE theory struck a responsive chord among magazine editors and writers. Other articles appeared in further elaboration of it. The editor of the *Forum* remarked editorially that history might judge we had placed the wrong emphasis on thrift. Fabian Franklin, in an article headed "Hard Times and Soft Thinking," stated that the merits of spending were entirely different in the abnormal times then existing from what they were in the normal working of the economic mechanism. Since lack of buying was the immediate



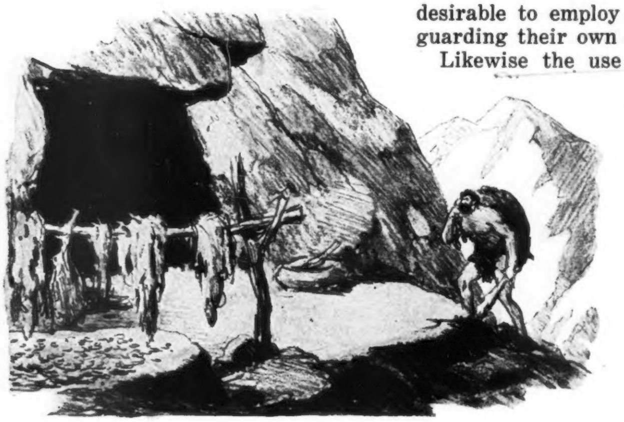
cause of hard times, he said, so the immediate agency of cure was to be sought in an increase of buying.

The new theory was echoed in the newspapers and in the remarks of luncheon club speakers. The much-maligned spendthrift began to come into his own. Whatever his faults, he deserved credit for keeping business going, was the belief. He might be snowed under with installment payments and be tempted to steal from his employer, but it had to be admitted that his mode of life kept our radio, refrigerator, and automobile factories humming. As a modern daughter explained to her father: "I know that spendthrifts are not good people to marry, but you must admit they are very nice to go out with."

At a meeting of the Motion Picture Theater Owners of America held in Philadelphia, a former President of the Association was quoted by the newspapers as follows: "The bankers are responsible for the thrifty habits of people. Even now they ask us to spend wisely. That is foolish. What this country needs is extravagant spending. We never had prosperity until the people had learned to spend extravagantly and bought things they didn't need." The new theory gained such acceptance that the Government hesitated to announce economy measures. At the early meetings held under the auspices of the Administration, the publicity dealt chiefly with measures designed to increase spending.

Result Was More Thrift

THE effect of this barrage of propaganda was exactly the opposite of what was expected. The public not only failed to spend its money more freely, but on the contrary, it turned to thrift and saving with a determination and persistence not exhibited in this country in years. Savings deposits increased $267,000,000 in 1930, as compared with a net loss of $195,000,000 in 1929. Savings banks reported deposits easier to get than ever before. Thrift in its broader aspects was widely adopted as the solution for the ills of depression. More careful and prudent management, the elimination of waste and the discontinuing of unprofitable lines, became the order of the day in business. Faced with the loss of large sums in speculation, and with values tumbling, the people turned once more to thrift and self-denial. Writers began to call attention to the progress being made. Some pointed out the dangers of the wasteful and extravagant methods that prevailed during 1929. Gradually the opinion began to gain ground that the new era, about which we talked so glibly, was a myth and that the well-seasoned old-fashioned methods and policies that had proved effective



over a long period of years were still good. By May, 1931, announcement of the Government's economy measures was openly made and favorably received by the public. By early summer, the spending theory of business recovery had spent its force and was on its way toward oblivion.

A Deep-Rooted Habit

NOW that the attack on thrift has failed, it is worthwhile to give some consideration to the factors that led to defeat. In the first place, the adversaries of thrift greatly underestimated the strength of their opponent. Thrift is one of the oldest of all human traits. Man learned to save long before there was money or other medium of exchange, before there was trade or commerce, production or distribution. Before he accumulated his savings in gold and silver, he accumulated them in flocks and herds, hides and tallow, jewels and spices. Even after the use of metal money became common, saving continued without the use of the facilities offered by this convenient medium of exchange. Pericles sold his year's crop and took payment in provisions to be drawn upon as needed.

People saved before the process of putting out money at interest was developed and continued to save in this way long after more efficient methods were in vogue. Crœsus, the famous millionaire of ancient times, stored large sums in sacred places where superstitious barbarians feared to enter to steal and plunder. The temple at Delphi once held 4000 talents of gold; the Acropolis at Athens, 9700 talents of silver placed there by trusting depositors who asked nothing but safety for their funds. The goldsmiths' guilds, at a later period in history, received money on deposit on the same terms. The necessities of their trade demanded protection for the precious metals. Thrifty individuals found it desirable to employ these services in guarding their own savings.

Likewise the use of saved wealth as an aid to development of the productive and distributive machinery of society dates back to very ancient times. When Andrew Carnegie commended the process by which the small savings of many could be combined to create a great steamship or other valuable instrument of production or distribution, he was describing the modern development of a scheme known to the ancients. Saved wealth in some form made possible the

canals and roads, workshops and potteries, about which we read in the economic histories of Greece, Rome, Egypt and Carthage.

Centuries of personal and social approval lie behind the practice of thrift. The admonition to save appears prominently in the Scriptures and similar counsel has come from the lips of wise and successful men of all ages. Paul of Tarsus, a successful tent and awning manufacturer, paying from his own pocket his expenses in spreading a new social gospel, nevertheless wrote to his friend Timothy that a man's first obligation was to accumulate something for the protection of his family. "He that provideth not for his own," he wrote, according to a late version, "especially for those under his own roof, has denied the faith and shown himself to be an untrustworthy person." His advice finds a modern counterpart in Carnegie's statement, "A man's first duty is to make a competence and be independent," and the similar one by Bok, "A man's first duty is to be a good provider for his family."

Highly Recommended

THE words of Marshall Field, James J. Hill, and John Wanamaker are familiar to every school boy. A large savings bank recently decided to publish testimonials on thrift. The public library yielded statements from more than 100 prominent people who had publicly indorsed it. Presidents, capitalists, writers, investors, and philanthropists stood solidly back of it. "I have never seen any road to independence except by saving," said President Hoover. "A man with only $1 of assets has to take the first job offered him; the man with $1,000 can take the choice of several; a man with $5,000 saved can go a long way toward dictating who is to get his service. I went through this mill myself."

Robert Dollar, the steamship proprietor, included thrift in his "Rules for Happy Living," and "We all make mistakes in life, but saving is never one of them," by Thomas Edison, and "Saving is the first principle of all great success" by Lipton add further weight to the argument.

A year or so ago at the Conference of Major Industries in New York, a dinner was given to nine pioneers of American industry: Henry Ford, Orville Wright, Glenn H. Curtis, Thomas A. Edison, Charles M. Schwab, Julius Rosenwald, George Eastman, Cyrus H. K. Curtis, Harvey S. Firestone. Six of these nine men in their writings have placed thrift among the qualities that contributed to their success. A seventh found a savings account essential in the early work on his invention.

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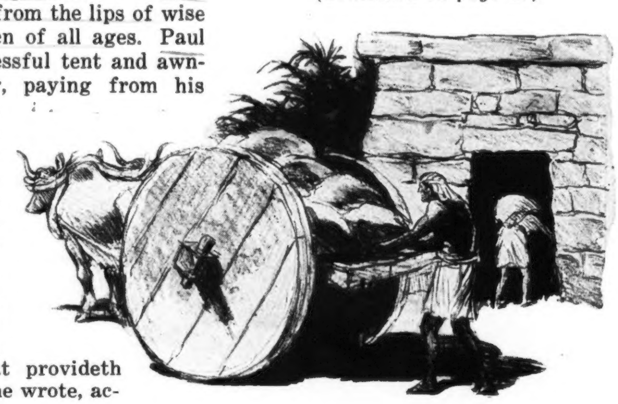


A. B. A. Convention Objectives

Bankers Who Attend Forthcoming Meeting in Atlantic City Will Benefit by Participating in Program Which Has for Its Purpose the Distribution of Practical, Income-Producing Information. Discussions Will Cover All Important Operations.

TWENTY-FOUR years ago, in September of the panic year 1907, the American Bankers Association held its Annual Convention in Atlantic City. The same city was host to the Association in 1917, 1923 and again at the time of the Fiftieth Anniversary Convention in 1925. Anyone who recalls the memorable meeting on Young's Pier in 1907, shortly before the nation entered on a long period of depression, must be impressed by the fact that the intervening years have altered the outlook of banking profoundly; and by the fact that problems faced by bankers at the time of this first Convention in Atlantic City were extremely simple compared with those to be solved by the Convention which opens October 5 with headquarters at the Hotel Traymore.

In 1907 the Association had a membership approaching 9000, or half the number of banks in the country at that time. It was just coming into its own as a body truly representative of the banking interests of the United States. Theodore Roosevelt was President of the United States, the total public debt was less than $900,000,000, "trusts" were the popular target of political orators and Judge Landis had just announced his decision fining the Standard Oil Company $29,240,000; the Panama Canal was still chiefly on blueprints and San Francisco was rebuilding itself on the ruins left by the earthquake.

The late J. D. Powers of Louisville, Kentucky, was the outgoing President of the Association and George M. Reynolds of Chicago was the incoming President. In those days banking had major responsibilities to be sure, but these were confined largely to what might be called strictly banking problems. The outstanding question before the country and before the Association concerned the creation of an elastic currency. The Convention in 1907 met at the beginning of a historical business depression; the Convention this year meets at a time which many hope marks the ending of a historical depression.

Another change which stands out sharply is the increased attention given by the Association to problems of management. The evolution of profitable practices and sound methods through an exchange of experiences was not regarded as an essential function of the Association. Today the Association has extended its activities to include almost every domestic or world problem of any importance without neglecting to concern itself in the other direction with the minutest matters of personnel or even the arrangement of credit files.

In 1907 there were no war debts, no world-wide over-production of cotton and grain, no Communist Russia, no dictatorships of the post-war type, no radio broadcasting networks, no air transport service and motor cars were trimmed in brass and had to be cranked.

The period between this first Atlantic City Convention and the forthcoming one brought important changes in the public's attitude toward banking. Today the nation's business expects leadership and the Convention program is being arranged with that thought for guidance.

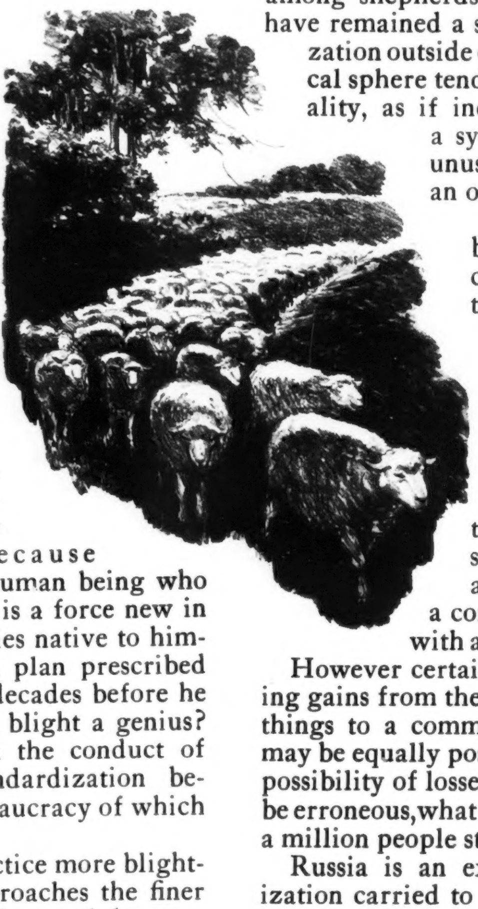
Since the Cleveland Convention in October last year banking has encountered a series of severe tests. It has overcome many of them by hard work and by giving the country better banking service than ever before. More and more effort has been applied to the inauguration of safe and sound methods to the improvement of earnings and to other changes intended to increase the stability of banks and their usefulness to the public. The long period of low interest rates and sluggish business has had the inev-

(*Continued on page* 49)

The Common Denominator

STANDARDIZATION has its economies and extremely valuable ones. Where millions are wasted in making one article of utility in scores of patterns and sizes when a few patterns and few sizes will serve the world better, then standardization is something to encourage. But even standardization may be carried too far and its importance raised to too high a place.

Standardization primarily belongs to the realm of things physical but for all of that, there has been a subtle growth of the standardization idea in directions that seem to be unnatural.



Educators, adhering strictly to a set form of instruction, often have misgivings that there is something wrong, because they reason if each human being who comes into the world is a force new in nature with possibilities native to himself alone, may not a plan prescribed for his development decades before he was born be likely to blight a genius?

Carried too far in the conduct of public business, standardization becomes the evil of bureaucracy of which men complain.

Nowhere is the practice more blighting than when it approaches the finer arts. Witness the weakness of the mass of literature poured out each year in America; most of it has been reduced to a common denominator.

Contrast its quality with that of the masters: If one great English writer had fallen under the spell of standardization, we would not have had a Shakespeare.

Look in any direction and the same truth prevails. If Theodore Roosevelt had conformed to standardized practice, the Panama Canal might still be one of the big jobs to be undertaken.

If Michael Pupin had accepted the standardized practice of signalling among shepherds, he probably would have remained a shepherd. Standardization outside of its proper mechanical sphere tends to repress individuality, as if individuality—so often a symptom of something unusually useful—were an offense and a crime.

Translated into banking terms, one complaint from customers against branch banks is that they find themselves standardized out of their individualities and personalities. Some complain that they go to a branch as a personality but are standardized and stand on a common level, perhaps, with a group of unworthies.

However certain we may be regarding gains from the practice of reducing things to a common denominator, we may be equally positive that there is the possibility of losses, for, if the standard be erroneous, what a tremendous waste if a million people stupidly conform to it.

Russia is an example of standardization carried to the limit.

There we have a whole nation being standardized in everything, and with one of the main objectives being the standardization of the whole world!

James E. Clark

Why Wage Earners Go Bankrupt

By ROLF NUGENT
Department of Remedial Loans, Russell Sage Foundation, New York

Bankers Have a Direct Interest in the Ability of Consumers to Purchase Goods. Extensive Credit Rackets in Certain Areas Play on Ignorance and Result in Wholesale Garnishment of Wages. When Bankruptcy Comes Legitimate Business Holds Bag.

"DO wage-earners actually go bankrupt? I am, of course, familiar, as is every other banker, with bankruptcy among business men. And I remember several people in my home town who were thought to be wealthy but who went into bankruptcy. Probably because they were living beyond their means or because they had lost heavily in their investments. But wage-earners! I never heard of a wage-earner going bankrupt."

This was the comment of a well-informed banker when the increasing number of wage-earner bankruptcies was mentioned. It represents, I believe, the idea which most of us have about bankruptcy. Nevertheless, from July 1, 1929, to June 30, 1930, the fiscal year of the Department of Justice, the number of wage-earners discharged in bankruptcy almost equalled the number of discharged bankrupts of all other occupations put together. Twenty-nine thousand wage-earners went bankrupt in this period, compared with 13,600 merchants, 1400 manufacturers and 4500 farmers.

An Old Custom

WAGE-EARNER bankruptcy is not new. Some wage-earners have gone into bankruptcy ever since the passage of the Federal Bankruptcy Act. In 1920 about 6000 wage-earners all over the United States went into bankruptcy. Since then, every year has recorded an increase in the number. By 1925 there were 14,500 and last year there were 29,000.

But the worst is yet to come. The rate of wage-earner bankruptcy has doubled every five years since 1920 and shows no sign of slacking up. If the rate of increase of the last ten years should continue for another ten years, one out of every fifteen wage-earner families in 1940 would be potentially bankrupt, in the bankruptcy courts, or prevented from bankruptcy by reason of discharge within six years.

Chart I shows the trend in the number of bankruptcies since the passage of the Federal Bankruptcy Act. Although the curve labeled "All Others" includes all occupations except wage-earners, it can fairly accurately be considered the index of business bankruptcy. Excluding the first five years of operation of the 1898 act, the trend of wage-earner bankruptcies followed very closely the curve of business bankruptcies. Then came the depression of 1920-21 and business bankruptcy increased rapidly. Wage-earner bankruptcy began a gradual increase. Since 1925, business bankruptcy has not increased appreciably, while wage-earner bankruptcy has continued to increase with gathering momentum up to the time of the last bankruptcy figures. After fifteen years of submissive subjugation to the curve of business bankruptcies, the wage-earner bankruptcy curve suddenly steered a course of its own and threatens this year to exceed the number of all other bankruptcies.

6,000 to 29,000

CONDITIONS described here by Mr. Nugent constitute no blanket criticism of consumer credit, installment sales or cash loans. In fact, as he states, an examination of more than 1000 bankruptcy petitions filed by wage earners failed to show one case in which a legally operated loan company or reputable installment house contributed greatly to the debtor's predicament. But with the number of wage earner bankrupts rising from 6000 in 1920 to 29,000 last year he feels there is reason to assume that the system is defective.

Why?

WHAT has happened to wage-earners? The answer lies deep in the dusty schedules of assets and liabilities of individual bankruptcies in the Federal courts. In spite of their wealth of information, these records have been unfortunately overlooked in this much-heralded age of factual research. A book could be written about these records but they have been consigned to that morgue of oblivion—the files of the Federal courts.

Quite recently Yale University and the Department of Commerce have been cooperating in a study of business bankruptcy. This study will add tremendously to our knowledge of this overlooked field. In the meantime, however, wage-earner bankruptcy remains the dark continent calling for exploration.

Several Cases

WAGE-EARNER bankruptcies may be divided roughly into three classes:

1. Disguised business bankruptcies: The bankrupt may earn his living as a wage-earner but his failure may have been the result of a business enterprise with which he had become associated as a secondary occupation.

The Department of Justice reports classify a great many bankrupts as wage-earners who have failed in business but at the time of filing petitions in bankruptcy had become employees.

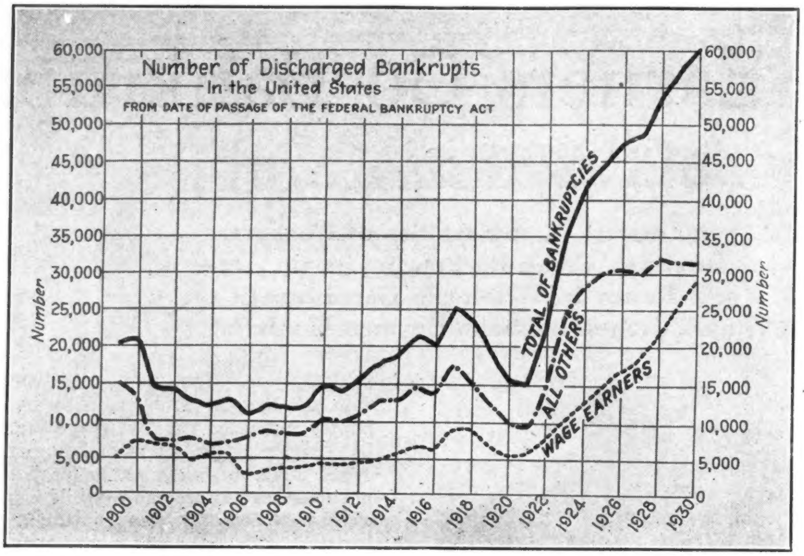


Chart I

In New York, for instance, a wage-earning tailor filed a petition in bankruptcy. A study of his case showed that the bankruptcy resulted from the failure of his boarding house business in the Catskills. There are a great many such misclassifications.

2. Bankruptcies due to overwhelming emergencies: In this class are included those wage-earners who were forced into bankruptcy by the sudden arrival of some large financial obligation which they neither planned to accept nor could foresee. Relief from debts due to court judgments and hospital expenses are the most common cases of this classification.

3. Consumer bankruptcies: The third type is caused by the failure over a period of time to balance the family budget. Recurrent sickness, unemployment, extravagance, reduction of income, or inability to resist sales pressure may have caused the difficulty.

Before 1921 and After

THE first two types of bankruptcy have always been with us. Throughout the history of bankruptcy, wage-earners have been burned by real estate speculations, or by contingent liabilities for business debts. The trend of these bankruptcies naturally follows the curve of business bankruptcies. Since wage-earner bankruptcy so closely paralleled that of business bankruptcy prior to 1921, it is fairly safe to assume that business reverses were the cause of a considerable proportion of wage-earner bankruptcies during this period.

Bankruptcy due to sudden emergencies can be expected to occur in proportion to population with almost actuarial regularity. The number proportionately is apparently rather slight. The inclusion of this type of bankruptcy may account for the tendency of the wage-earner curve to be more stable than the business bankruptcy curve up to 1920.

Since 1920 there has been little increase in the number of wage-earner bankruptcies due to either of these causes. And yet wage-earner bankruptcy has continued to shoot upward for ten years. The increase has been supplied by consumer bankruptcy.

Bankruptcy implies credit obligations. While the consumer had no credit, there were no consumer bankruptcies. The increase in consumer bankruptcies during the last ten years parallels the increase in the use of consumer credit.

It would be a fallacy to suggest that prior to 1920 wage-earners had no credit as consumers. The corner grocery store and the butcher shop have been proverbial grantors of credit. But since 1920, a new type of consumer credit has developed. Open book credit has been superseded by $1 down and $1 a month credit. The new credit belongs to the cities. In small communities the old order still prevails. Likewise, consumer bankruptcy is an urban problem unknown to the country side.

A Problem for Each State

WAGE-EARNER bankruptcy cannot be discussed as a national problem. In spite of the fact that the bankruptcy law is a national statute, the necessities for wage-earner bankruptcy lie in state laws affecting the rights of debtor and creditor.

In the industrial city of Altoona, Pa., there was not a single wage-earner bankruptcy during the last eight years. During this time, nearly 200 businesses went into bankruptcy. Newark and Trenton had only a very few wage-earner bankrupts and they were, for the most part, other than consumer bankruptcies. Consumer bankruptcies in Boston are a rarity and in New York City they are almost as unusual. In Florida and the Carolinas true consumer bankruptcies are unheard of.

Then there are the sore spots. In the Kentucky cities of Louisville, Ashland, Paducah and Covington, 89 per cent of the bankrupts were wage-earners. During 1929, Louisville had 650 wage-earner bankruptcies, Ashland 150, Covington 100, and Paducah eighty-five. Practically all of these were consumer bankruptcies.

Chart II shows the variation in the extent of wage-earner bankruptcy by states. The high spots in order are Alabama, Tennessee, Oregon, Virginia, Kentucky, and Maine. The lows in order are South Carolina, North Carolina, Pennsylvania, Texas and Florida.

Chart III shows the ratio of busi-

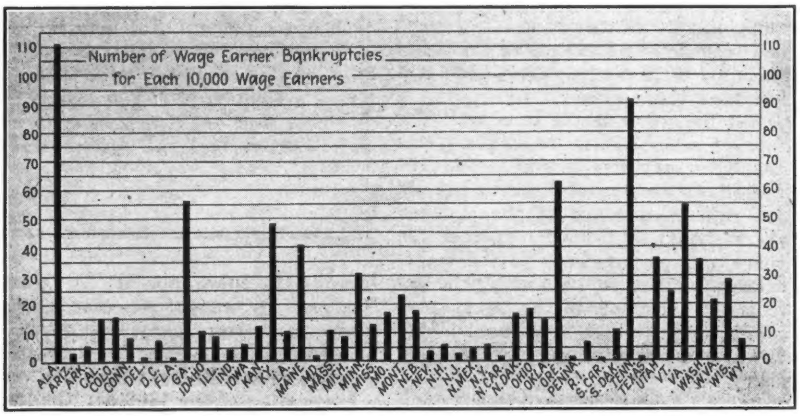


Chart II

ness bankruptcies to population. Although Oregon and Nevada show extremely high business bankruptcy rates, variation among states is small compared to the variation in the rate of wage-earner bankruptcy. The highest is only ten times the lowest, while for wage-earner bankruptcies the rate in Alabama is more than 350 times the rate in South Carolina.

No General Indictment

WE have suggested that the cause for the increase in wage-earner bankruptcy is the increase in the use of the new forms of consumer credit.

The bankruptcy records themselves yield little encouragement to an indictment of consumer credit as an institution or to an indictment of reputable, legalized agencies financing installment sales or making cash loans. Automobiles and radios are sold by installments in all states in comparatively equal proportion. The large finance companies and chain consumer loan companies operate in states having low-wage-earner bankruptcy rates as well as those with high bankruptcy frequency. Examination of more than 1000 wage-earner bankruptcy petitions failed to show a single case where a legally operated loan company or reputable installment house contributed materially to the financial disaster.

The causes lie not in the new credit system itself but in some of its concomitants. First, there has been a breakdown of the old fears of debt and the historic concepts of thrift. Fifty years ago a mortgage on one's home was a family skeleton not to be mentioned except in inner circles of family financial conferences. Debt was a shameful thing. These suppressions are now as dead as hoop-skirts and horse-cars. The indifference to debt has produced more consumer bankruptcies. In the days when debt was something to be avoided, emergencies and periods of bad luck made people broke, but now it makes them insolvent.

This is to be expected. It is not important unless the debts themselves have increased the frequency of these emergencies or periods of bad luck. It would not explain, however, the very wide difference in the frequency of wage-earner bankruptcy among various states. The hazards of unemployment, ill health, or other catastrophies do not vary greatly between states.

The wage-earner bankruptcy rate is not a true measure of the financial status of families in that state. Extremely infrequent bankruptcy rates do not in themselves mean that financial disasters are not occurring

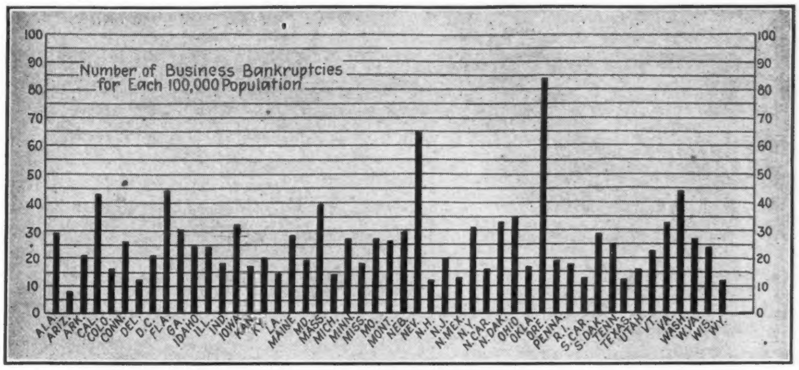


Chart III

to wage-earner families. It is more apt to mean that the wage-earner debtor merely cannot be made to pay and, therefore, is not forced into bankruptcy. This is largely true of Pennsylvania and the Carolinas where garnishment of wages to collect debts of wage-earners is either impracticable or actually prohibited.

New York and New Jersey permit restricted garnishment of wages to collect wage-earner debts. In these states the right to enforce wage-earner obligations has not resulted in frequent bankruptcy. The majority of bankrupts classified as wage-earners by the Department of Justice in these states were not wage-earners at all. They had failed in business and had got themselves jobs when the petition in bankruptcy was filed. Restricted garnishment apparently does not lead to widespread use of the bankruptcy.

The states in which wage-earner bankruptcy is extremely high either permit garnishment without restriction or permit the use of wage assignments as security for loans or credit sales to circumvent the restrictions on garnishment.

The ease of collection against wages in these states has unfortunate results. First of all, it has encouraged the development of credit businesses and loan companies that can only be classed as racketeers. Relying on their ability to attach wages, credit granting is unlimited. The only question of the borrower or purchaser is, "Do you have a job?"

Mass Collection

THE entire function of the personnel of many chain installment houses is to push merchandise over the counter and get the name of the purchaser on the dotted line. To whom the goods are sold, on what down payment and on what repayment terms are unimportant matters. When the goods are sold, the branch's job is done. Delinquents are turned over to an attorney who has developed a mass production method of handling collections. A form notice of demand for payment is made. If this proves unsuccessful, suit is instituted in a justice of the peace court and attachment of wages follows.

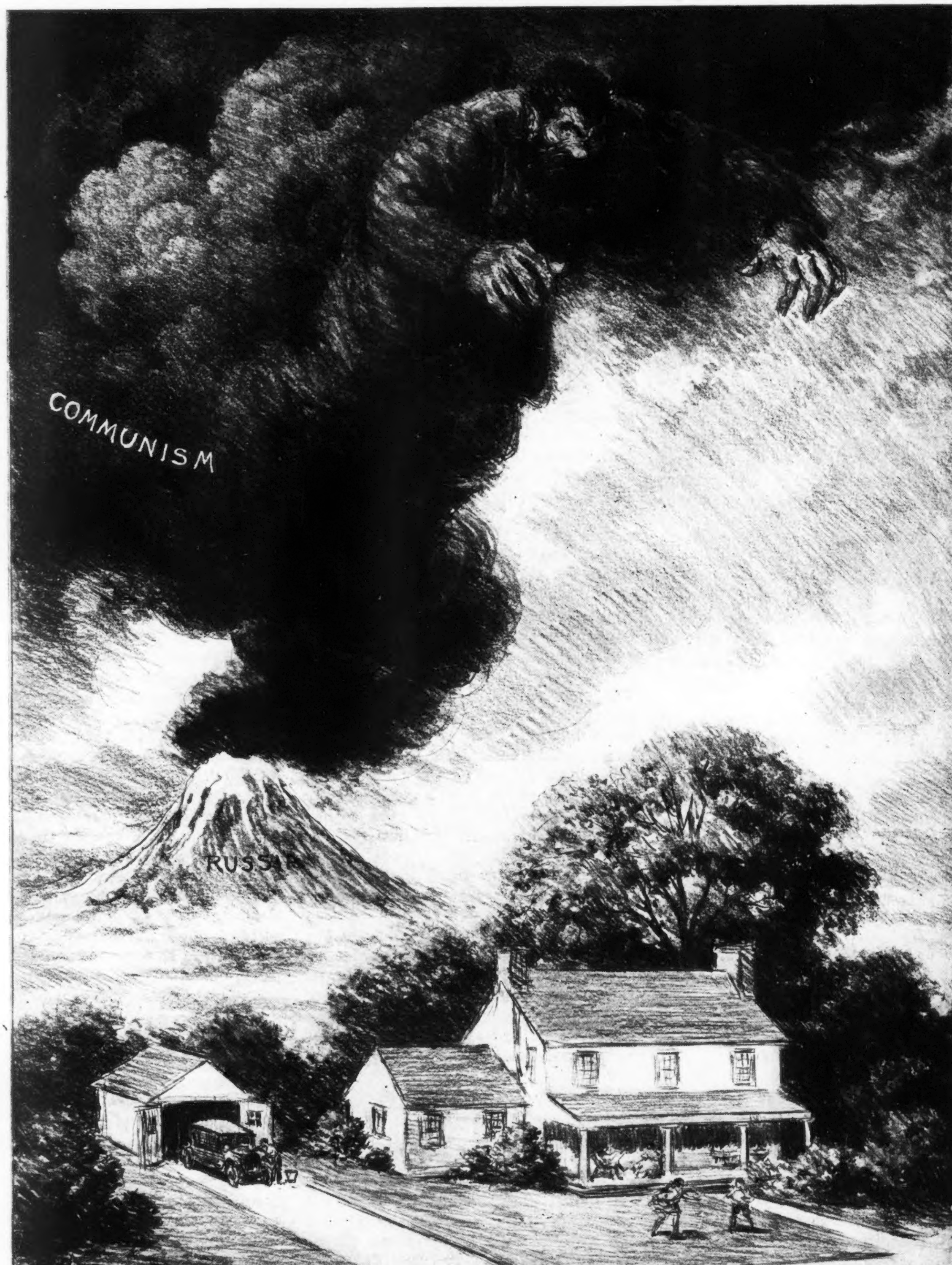
These J. P. courts are humorously called judgment for plaintiff courts. They are in competition for business. The fee goes to the justice of the peace. The creditor is the source of business, so the creditor is the favored party in the suit. These courts grind out endless numbers of installment and loan company suits for debt—the installment house suits for clothing, furniture, jewelry worth perhaps one-third of the sale price; the loan company suits for principal and interest at 100 per cent to 960 per cent per annum. Each suit adds to the burden of the purchaser or borrower by adding court costs to the bill which is already too burdensome for him to pay. In a period of four and one-half months in 1929, one J. P. court in Lexington, Ky., gave 627 judgments against wage-earners for loan company debts and 318 judgments for installment debts. Two hundred and sixty-eight of the loan company judgments were in favor of one loan company. Similar conditions exist in the other cities of Kentucky and in many other states.

Borrowing to Pay

THE ease with which collections are enforced through the courts has led many employers to discharge any employee whose wages are garnisheed. Where no such rule exists, the employer is used as a veritable credit account collector. One large employer in Ashland, Ky., known for its liberal personnel policies had 30 per cent of its employees garnisheed during one year. One employee was garnisheed thirteen times; twenty-one were garnisheed from five to twelve times.

Where the rule of discharge exists,

(*Continued on page* 50)



THE PLAGUE OF DARKNESS

Russia's Substitute for Money

By ROBERT CROZIER LONG

As Long as the Soviet Government's Budget Was Balanced and the Ruble Stabilized the Use of Money Was Not Questioned. It Was Only After Inflation Had Wrecked the Currency That Moscow Turned Against Cash in Favor of Clumsy Substitute.

HISTORY repeats itself. The government of the Kremlin is once more abolishing, or at least narrowly restricting the use of money. It has suppressed bills of exchange, framed a moneyless credit-system for state undertakings, extended the old practice of agricultural deliveries in kind, prescribed universal payment of taxes by way of savings-bank transfers, and decreed the gradual introduction of moneyless wage-payments. This, say confident Bolsheviks, will lead to the moneyless state—an ideal of 1917-18 which would have fitted primitive Communism admirably but which seems impracticable for the elaborate, bureaucratic state capitalism into which Communism has developed.

Cautious Opportunism

THE new Soviet war on money confirms an old observation that original Bolshevik tenets which are temporarily dropped in fits of cautious opportunism always crop up again. Lenin's liberal New Economic Policy was an opportunist repudiation of Lenin's original program, but Stalin has repudiated the repudiation and by his headlong Socialization of farming is going farther than Lenin dreamed. After the Bolshevik triumph of October, 1917, the moneyless state was a boasted aim. A genuine Communist republic could remunerate its bureaucrats, run its railroads, and even arm its red soldiers without cash. "In a socialistic society," said Commissary of Finances Krestinsky to the First All-Russian Communist Congress, "there should be no money and no finances. I apologize therefore for the existence of our finances, and for my own presence here."

Eight years ago the Soviet Government abjured its first finance commissary's heresy. It stabilized the ruble, balanced the budget, and for years thereafter pursued a respectable, humdrum, "bourgeois" money policy. The statutes of its State Bank did not differ materially from those of a capitalistic central bank, and these statutes were jealously observed; the credit apparatus of industry and trade was capitalistic in structure; private accumulation of capital via saving was encouraged; and the state by issuing loans created a petty creditor and investor class. Even today these principles and policies have not been formally repudiated. But it is affirmed that a great many public and private financial transactions can be conducted without cash, and that a circulating currency, whether paper or coin, is for such purposes superfluous.

> ### Try Anything
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> *IF further proof were needed that Russia rushes in where bourgeois nations fear to tread this record of Moscow's naive experimentation with a medium of exchange would supply it. When even the firing squad failed to maintain the value of the ruble the Soviet Government turned vigorously toward the task of abolishing money. In its place there are being issued certificates like money but much less convenient.*

Russia Likes Good Money

ATTACKS upon money as a crime and as a superfluity are made only when money has already been degraded by inflation. In 1922 and 1923, when German money seemed incurably sick, scores of schemes for doing altogether without money were propounded. Payments were to be made by mere booking in a "theoretical gold-mark" based not upon gold but upon the international purchasing-power of gold. When, contrary to expectation, it was discovered that a sound currency could be restored, the attacks upon money ceased. Here, again, in Russia, history has repeated itself. As long as the principles of the Soviet's currency reform of 1923-24 were adhered to, even fanatical Communists forgot the fundamental badness of money. But when apparently incurable inflation was resumed, the ideal of the "Moneyless State" revived. Instable money, daily experience proved, was visibly and incontrovertibly bad; therefore money itself was bad.

The fact that Russia's currency is inflated and depreciated can only be proved indirectly, and was therefore long officially denied. The ruble, whose legal parity is fifty cents, is not quoted in any non-Russian exchange market. It can be bought in the unofficial foreign exchange markets for the equivalent of seven cents, often for less. This, reasoned Moscow ingeniously, is due to Russia's prohibition on the importation of rubles; the speculator, having to smuggle in his rubles surreptitiously, must get them cheap if he is to insure against the risk of detection. Within Russia the Moscow State Bank valiantly "maintained" the ruble's exchange at fifty cents; but in view of the fact that neither gold nor foreign exchange was sold at that price the maintenance was a fiction. Short of an exchange market, the only test of the ruble was its internal purchasing power. Here, again, there were two kinds of test markets. The state retail stores and the cooperatives sold necessaries cheaply enough, but they sold only severely rationed quantities. In the free market thirty rubles, nominally $15, will today hardly pay for a pound of butter, and 200 rubles, nominally $100, will hardly pay for a pair of shoes.

Bullets

THE Soviet Government long ascribed this depreciation in the free exchange and free commodity markets to speculation. It shot some so-called speculators "in order to encourage the others" as Voltaire said of the English who shot Admiral Byng. In the fall of 1930 it abandoned the pretence,

without, however, abandoning the the shooting. It had been compelled at last to take measures against inflation; and an admission of inflation was the only means of justifying these measures to the public. Thereupon revived the agitation against money as an unnecessary evil. It was discovered that while further inflation might possibly be prevented the existing inflation would remain. The currency was therefore incurably depreciated; it had ceased to function as a measurer of real values, and it must be excluded as far as possible from public and private financial transactions.

The former State Bank President Piatakoff, condoning the inflation, affirms that it was the Five Year Plan that crushed the currency. Either the Plan or the currency was predestined to perish, and the Plan was the more precious to official minds. Post-war experience nearly everywhere in Europe proved that industrial output and expansion of productive mechanism could be temporarily financed by inflation. Sound-money Germany has today 5,000,000 unemployed; in the frenzied inflation year 1922 she had 18,000 unemployed. Capital was short; and inflation money which consistently favors the producing, debtor class was a useful surrogate for capital.

The Five Year Plan in Russia required vast capital investments. This capital was provided—on paper. Profits of the state concerns were to accumulate and to be invested in expansion; there was to be "mobilization of the resources of the people" in the shape of public loans; finally there were to be export-trade surpluses which being usable as payment for machinery, transport means, and raw materials, would constitute an effective contribution to the investable capital fund.

Almost Perfect

THAT was known as the "financing of the Plan." The Plan was an integral, interdependent whole. For every ruble to be invested in Plan expansion a ruble from some supposed source of capital accumulation or capital concentration was counted on. Unluckily the accumulation and concentration estimates were in no single year realized. The profits of the state concerns depended primarily upon the two factors: selling prices and production cost. But whereas the prescribed selling prices were in general observed, production cost nearly everywhere exceeded the estimates. Commissary Maimin, a member of the College of the Finance Commissariat, calculates that 1,500,000,000 rubles were lost in the last business year 1929-30 owing to this cause. The productivity of labor indeed increased 13 or 14 per cent, and average production cost declined 7 per cent. But these achievements, in themselves satisfactory enough, were insufficient, because the Plan confidently assumed that productivity of labor would increase 25 per cent and that production cost would decline 12 per cent.

In "mobilizing the resources of the people" and in foreign trade, deficits were also suffered. Industrial workmen furnished their prescribed quotas to the last loan "Five Year Plan in Four Years," but the peasants did not subscribe much; and neither class paid in punctually the sums nominally subscribed. In export trade Russia successfully dumped; but the financial result proved once more that dumping is inevitably a national loss. The international price-fall in foodstuffs and raw materials was not primarily due to Russia, but Russia aggravated it; and she suffered even more than other countries whose chief exports are in these groups. By dumping, by cheaply exporting nearly 2,500,000 tons of grain, as against no grain export in the preceding year, Russia in the business year 1929-30 increased the quantity of her export by 50 per cent, but the monetary yield of the export increased only 14 per cent. Had prices not fallen, had dumping not conduced to their fall, her increased quantity export would have paid for additional machinery, transport means, and raw materials, and would have constituted supplementary capital for the expansion of the Plan.

Sacrifice the Plan?

NECESSARILY the Plan was threatened by shortage of capital. The remedy would have been to slacken the pace of the Plan; and the official Moscow economic journal admits that "this was at least worth considering." But Stalin and his ambitious coadjutors were resolved not to slacken. Even after the inflation which was due to precipitate expansion had to be officially admitted, slackening was repudiated. In February this year Stalin informed a meeting of the industrial leaders that no slowing-down in 1931 was possible. On the contrary, industrial production would be increased 45 per cent, "which as far as leading branches are concerned means fulfilling the Plan not in four years but in three."

The Plan went stolidly ahead without capital. The Moscow Council of Economy has further determined the fact that in 1929-30 one-third of the undertakings in leading branches outstripped the Plan. In a "bourgeois" country such expansion of industry more rapidly than capital resources justify would cause a capital-market crisis, but it would not cause currency inflation and depreciation. The expanding industries would no doubt require large short-term credits, but central-bank measures would check inflation. In Russia those state industrial concerns which lacked capital obtained discount credits, and calmly proceeded to invest this essentially short-term credit in long-term construction and equipment enterprises. The same thing happened with communications, in particular with railroads. In December, 1930, it was discovered that 500,000,000 rubles of short credits to communications had been locked up in construction. The State Bank could not make state undertakings bankrupt by calling in credits; and as it had to give ever more credits for working-capital, inflation was the inevitable result.

Pace of Inflation

THE Plan provided for a progressive increase of circulation. This increase was to be proportional to the planned growth of production and turnover. In recent years the planned circulation increase was persistently exceeded. The planned annual circulation increases in the three business years, October, 1927, to September, 1930, together totalled 1,100,000,000 rubles. The actual circulation increase was from 1,628,000,000 to 4,264,000,000 rubles, or by more than 2,600,000,000 rubles. The State Bank pedantically obeyed the prescriptions of the currency reform of 1923-24; its own currency in "tchervonets" units of ten rubles continued to be secured with the legal 25 per cent of precious metal cover. But inflation proceeded in treasury bills, that is in the unbacked issues of the Finance Commissariat. Under the law of 1924 the circulation of these was not to exceed 50 per cent of the State Bank's circulation. But in 1928 the limit was raised to 75 per cent, and in late 1930 further to 100 per cent; and at the end of the business year 1929-1930 (after which the Finance Commissariat suspended the publication of returns), the treasury bill circulation reached nearly the full 100 per cent of the State Bank's circulation.

The Soviet Government at first tolerated the inflation; it cared only for the Plan. It reversed its policy, decided for deflation, and proclaimed for the elimination of money from important transactions, only when the depreciated currency threatened to become useless for commercial purposes. In October the State Bank president Piatakoff was replaced by

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Good Real Estate Loans and Others

By A. G. EVERETT

Liquidity Should Be First Consideration. Volume of Bank Loans on Land and Buildings Has Moved Upward in the Past Few Years. Recent Experiences Have Proved Wisdom of Limiting Purchases of First Mortgages to Those of the Highest Quality Only.

IT is inevitable, perhaps, that the experience of the past year or so should bring a minute examination of every possible cause of trouble in the operation of banks. Just at present this is taking the form of questioning certain types of bank loans on real estate and there is something of a movement among bankers and legislators toward the restriction of such loans to superior real estate securities only.

The difficulties which banks have faced in frozen or slow loans of this sort in the past few years, involving banks ranging all the way from large city banks to the smallest country bank in the agricultural belt, have been many and great; and the fact that gross abuses have appeared is a natural and reasonable basis for present doubts. The subject also is a live one in the fact that both farm land and city real estate values at the present time are in a state of flux,—the former by reason of the depressed conditions in agriculture and the necessity of adjusting American agriculture to new conditions and the latter because of a rather general deflation due to depressed business conditions and a reaction from previous booms.

Slow in Emergency

REAL estate loans, as such, have never figured prominently among the causes of bank failures although in numerous instances the collapse of local real estate booms has caused failures. In case of failure or suspension of a bank by reason of other causes, however, real estate loans almost invariably cause trouble because of their slowness in collection, their lack of marketability in most communities, uncertainty as to their value growing out of the uncertainty of real estate values in general, and the fact that real estate is peculiarly subject to local inflation under intensive sales methods.

Deflation often follows and thus renders security for loans of very doubtful quality. There seems to be no question that a certain amount of real estate financing by banks is necessary both as a matter of meeting the needs of a community and as a matter of the profitable employment of bank funds. Such financing also is closely related to that of the building trades which not only reaches a considerable volume in each community but also can hardly be financed in any other way. Nevertheless real estate loans by banks have long been regarded as doubtful. For many years national banks were prohibited from making them and difficulties seem always to have attended them.

Hard to Sell

THERE is no form of property so absolutely unmarketable at a fair value as a piece of real estate for which there is no real demand and probably no other standard form of property when put to a forced sale can involve losses so disastrous. Since such loans are usually of long term it is difficult to see clearly ahead to their maturity. The prices of farm lands are subject to the ups and downs of agriculture and no one can tell what agricultural conditions will be five years hence. City real estate is subject to great fluctuations in value following changing movements of population, changes in the fashionable residence or business districts and the growth or decline of cities themselves and especially the smaller cities and country towns affected by the concentration of business and to some extent of residence in the larger cities as a result of improved means of communication and transport. The automobile is responsible for the decline and decay of hundreds of rural communities all over the country in which the demand for residence and business property has fallen off and property values have declined with the result that hundreds of country banks have become loaded with real estate mortgages no longer adequately covered by the property involved while even in cases where actual values are sound the slowness of demand for such property renders the security for loans unsatisfactory.

Nevertheless the banks of the country have increased their holdings of real estate securities in recent years. The movement continues and apparently it continues in exactly that class of banks which have been most unfavorably affected by the deflation in real estate values. The increase has been not only in actual amount but also in proportion to total loans and investments. On June 30, 1928, all reporting banks held real estate mortgages, trusts and other real estate securities to the amount of $6,381,431,000 which was 10.9 per cent of their total loans and investments. In 1930 they held such securities to the amount of $10,445,710,000 or 17.9 per cent of their total loans and investments. In 1928 their holdings included $455,161,000 on farm lands and $5,926,270,000 on other real estate. In 1930 the proportion was $409,345,000 on farm land and $10,036,365,000 on city property or other real estate. This classification of banks, of course, includes savings banks whose holdings of real estate securities naturally are large.

Commercial Banks Also

THE investments of commercial banks in such securities, however, also seem large. Real estate securities, held by national banks, including savings departments, increased from $825,452,000 in the October call of 1926 to $1,473,001,000 in the October call of 1930. In 1926 these holdings amounted to 5.40 per cent of their total loans while by 1930 the proportion was 9.89 per cent of their total loans. In 1926 the volume was a little less than 5 per cent of the total loans and investments; in 1930 the proportion was 6.76 per cent of the total loans and investments.

A comparison of the record of 1928

with that of 1930,—the year before and the year after the climax in the late business boom,—gives considerable insight into the situation. In 1928 the national banks held real estate securities to the value of $1,285,915,000 which was 8.48 per cent of their total loans or 5.76 per cent of their total loans and investments. In 1930 they held $1,473,001,000 worth of such securities which was 9.89 per cent of their total loans or 6.76 per cent of their total loans and investments. In 1928 all member banks in the Federal Reserve System held real estate securities to the value of $3,088,189,000 which was 8.69 per cent of their total loans and investments; in 1930 they held such securities valued at $3,163,710,000 which was 8.90 per cent of their loans and investments. In 1928 all reporting banks other than national held such securities to the value of $5,095,516,000 or 14.1 per cent of their total loans and investments while by 1930 the amount was $8,972,709,000 which was 24.5 per cent of their total loans and investments.

As compared with the steady volume of such securities, both in comparative amount and in proportion to other loans and investments, apparent in the returns of member banks it is worth noting that in the non-member banks loans on farm land decreased from $130,036,000 in 1928 to $112,375,000 in 1930 while loans on other real estate increased from $4,965,480,000 in 1928 to $8,972,709,000 in 1930. As a deduction it appears that while national banks, including their savings departments, account for considerable increase in the three years other banks in the Federal Reserve System must have shown a decrease of about $115,000,000 in such holdings. The great increase came in non-member banks, including savings banks. The real estate securities held by stock and mutual savings banks in 1928 was reported at $2,744,102,000 of which only $34,263,000 was on farm lands. In 1930 these holdings were $6,033,745,000 all but $2,453,000 was on city property. The total holdings of savings banks increased $3,289,643,000 in the three years. Of the increase in the real estate security holdings of all reporting banks in the United States from $6,381,431,000 in 1928 to $10,445,710,000 in 1930, amounting to $4,064,279,000, the savings banks account for $3,289,643,000 leaving $774,636,000 as a measure of the increase in the holdings of commercial banks in this class of loans.

There are some other statistics of significance in this connection. In 1928, as above stated, the national banks of the country held real estate mortgages, trusts or other liens on real property to the amount of $1,285,915,000. Of this total $187,508,000 was placed on farm land and $755,136,000 on other real estate in accordance with provisions of the amended Federal Reserve Act, these loans constituting 6.22 per cent of their loan portfolios. However they also held mortgages, trusts or other liens for $114,727,000 on farm lands and $113,863,000 on other real estate as security for debts previously contracted, these holdings totalling $228,590,000 or 1.51 per cent of their total loan portfolios in what may be termed involuntary loans. They also held $22,890,000 on farm lands and $91,791,000 on other real estate in a class of loans termed "all other real estate loans" and which in general may be taken as additional security for loans contracted on other bases and also more or less involuntary. Unfortunately the returns of the Comptroller's office do not specify such holdings of the national banks later than 1928. It is known that such holdings have greatly increased since that time, especially in the closing months of 1929 and the opening months of 1930. In 1928 the proportion of these two classes of involuntary holdings of real esate securities was 2.26 per cent of their total loan portfolios. The proportion has increased since 1928 but how much is problematical.

Casting up the account of the real estate securities held by the banks of the country in general it can hardly be claimed that the part such securities play in the nation's banking business is questionable or the volume excessive although it may be questioned whether the proportion of 8.9 per cent of total loans and investments in member banks in the Federal Reserve System does not indicate that commercial banks in general are approaching a limit for this class of banks, especially in view of the fact that savings and commercial deposits are merged in so many instances. It seems reasonable to accept the present proportion of such loans as the banks' proper share of the burden and risk of financing the country's real estate business and that on the whole the banks can safely carry it.

Burden on Small Banks

HOWEVER an examination of the statistics in detail demonstrates, by inference at least, that the burden is not divided according to the volume of the business and the risks and there is a tendency toward an undue proportion of these loans being placed by small banks, particularly those outside of the Federal Reserve System. This, indeed, is in accord with the state of things demonstrated by bank failures in the past two or three years. Nevertheless the difficulty of limiting such loans in these or other banks by law is obvious. In the small town banks whose business in general has been affected by the movement of commercial, industrial and miscellaneous banking to the larger towns for reasons above given and whose opportunities for profitable local investment are being constantly reduced and curtailed by nation-wide economic movement the temptation to investment in real estate securities is apparent. Such banks should be given the utmost freedom of action consistent with safety. Nor is it practicable in such cases to place short term loans with strong mortgage loan companies as has been advocated as a means of profitably employing bank funds in real estate financing; such concerns do not exist in such communities, while securing such loans from outside a community involves machinery not justified by the business involved.

Loans Are Needed

IT is evident, also, that the demand for real estate loans in these communities is strong and that it ought to be met in some way. There is no particular occasion for long term farm financing by local banks since there are ample means for such financing in the mortgage loan companies and in the Federal Land Banks and Joint Stock Land Banks. In the matter of town and city real estate, however, the situation is not so obvious. There is an undoubted need in the country of additional means for financing town and city residential property, at low rates of interest for home building. Loans on city business property or other improved urban real estate form a different class in which it would seem possible to improve matters by closer relations between local banks and metropolitan concerns dealing in real estate mortgages. Discounting the possible development of further home building agencies and possible improvements in the machinery for business property loans there is yet a field which only a local bank can cultivate to advantage.

Perhaps the most dangerous and certainly the most troublesome phase of the subject lies in the practice in recent years of shoestring financing of new construction of residential and other real estate improvements. Time was when a loan for home building represented an advance of funds for construction after the prospective owner had paid for his lot and in most cases was in a position to make a material payment on

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Mr. Hoover's Debt Plan

By A. CLOYD GILL

The War Cost the World More than $200,000,000,000 and It Is Not Over until It Is Paid for. The White House Proposal for One Year Moratorium on Debts and Reparations Must Be Viewed against Background of World Finance, Politics and Armaments.

THE American press has, for the time being, supplanted the Congressional Record as a medium for the statements and speeches of the President of the United States and members of the Senate and House of Representatives.

Though nominally Congress will not convene in Washington until Dec. 7, the membership of that body was, after a fashion, informally convened by President Hoover when he proposed a year's suspension of payment of war debt obligations by the Allied Powers. By the time the next payments are due—Dec. 15—members of Congress will have had sufficient time in which to study the President's proposal and make up their minds which course to pursue.

Wider Public Interest

IN 1922, when Congress created the War Debt Commission, the American people generally regarded it more or less an involved international political move in which they had no personal interest. Today, with several millions of men and women unemployed and with tax burdens increasing, war debts take on a new aspect, because any revision or suspension mean or seem to mean an increase in our tax burden. Taxes are an intimate, personal problem in America, hence our interest in the Hoover proposal.

Thousands of Americans who saw service in uniform in France are, today, seeking, for the first time, facts about the Young Plan, about Germany's reparations payments. Until now, they were content to let their public officials handle all unfinished business relating to the World War.

Intelligent consideration of the proposed year's suspension of war debt payments cannot be given without having before us a picture of the international situation.

The net cost of the war, according to the estimate of Harvey E. Fisk of the Bankers Trust Company, of New York, was $208,503,000,000. The cost to the principal participants was:

Great Britain	$43,812,000,000
British Empire	49,764,000,000
United States	36,186,000,000
France	28,160,000,000
Russia	16,239,000,000
Italy	14,721,000,000
Germany	47,048,000,000
Austria-Hungary	13,394,000,000

The money cost to the allied powers is placed at $147,043,000,000; to the central powers, $61,460,000,000. The allies lent $21,613,000,000 to one another during the war and of this, $11,513,798,190 is owed to the United States, including a certain amount of interest.

National debts of the participating nations increased during the war. As against a total debt of $25,727,000,000 prior to the war, the allied powers, at the close of the fiscal year of 1919 had a total national debt of $166,425,000,000. The national debt of the United States increased from $1,188,000,000 to $24,298,000,000.

Changes in national indebtedness of some of the allied countries, in millions of dollars, are as follows:

	Pre-war	Post-war
Great Britain	$3,436	$38,311
British Empire	6,897	47,664
Belgium	893	3,781
France	6,598	41,250
Greece	235	624
Italy	3,034	17,849
Japan	1,287	1,632
Portugal	703	2,063
Rumania	281	2,152
Russia	4,541	24,564
Serbia	70	548
United States	1,188	24,298
	$25,727	$166,425

Loans by the United States

FOR the second half of the war, the United States was the banker of the allied nations. Up to 1920, the United States had advanced $9,029,412,000 to allied governments and $551,408,000 for reconstruction work. Adding interest, at varying rates, the agreements with the various debtors to this nation called for payment of a total of $14,028,326,782. This latter sum, however, has been reduced by $2,514,537,592, of which Great Britain has paid $1,845,828,299.

Congress realized, ten years ago, that the economic conditions of some of the allied powers would not permit of payment of all obligations owed this country, on the basis of the notes and obligations held by the United States Treasury. Britain owed the United States $4,747,000,000; France, $4,000,000,000; Italy, $2,000,000,000; Belgium, $437,000,000; Russia, $232,000,000; Poland, $153,000,000; Serbia, $60,000,000; Rumania, $42,000,000, and half a dozen others amounts from $30,000,000 down.

Various Settlements

THE Debt Commission was authorized to negotiate settlements on a basis of capacity to pay. On that commission were Herbert Hoover, Charles Evans Hughes, then Secretary of State, the late Theodore Burton and Senator Reed Smoot. Its chairman was Secretary of the Treasury Andrew W. Mellon.

The British debt was the first one settled. Payment was extended in installments over sixty-two years with interest at 3 per cent during the first ten years and 3½ per cent for the remainder of the period. The rate fixed when the loans were made originally was 5 per cent. This refunding plan means a loss to the United States of about 25 per cent of the value of the loan, or the equivalent of $1,150,000,000.

On the basis of agreements made with other principal debtors, the French debt is now approximately $3,865,000,000 or 47.2 per cent of the original debt; the Belgian debt, 46.5 per cent, and that of Italy 24.6 per cent. The layman is led to believe that the principal of many foreign war debts has been reduced. This is not true. By stretching out payments and cutting interest rates, however, the effect has been the same.

In brief, the allied powers' obligations to the United States are being refunded on a basis of about seventy-five cents on the dollar, but the Debt Commission, in its negotiations was acting under Congressional authority to fund the debts "on such terms, con-

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EDITORIAL

The Rate of Interest

WELL worth the careful consideration of every banker is an article in this issue of the JOURNAL on interest rates.

Based on the results of an investigation made by the Bank Management Commission to ascertain how the banks of the nation were meeting the situation created by a decrease of earnings, it shows that the old practice of paying more for deposits than these deposits are worth is passing.

It shows, too, that the public is for the most part a reasonable public and does not expect that its money in the form of deposits is going to earn the same high rate of interest that prevailed in the past.

Furthermore, as has been demonstrated many times in the last five years, the survey revealed that bankers were discovering anew that mere volume is not an unmitigated blessing—that some accounts instead of being paying guests are parasites which might better be cast off.

A Year and a Day

THE condition of the United States Government's finances at the close of the fiscal year on Tuesday, June 30, 1931, makes an ominous comment upon American character and American progress. On that date, the Treasury had an estimated deficit of approximately $903,000,000 due to a falling off in income on the one hand and to an increase of expenditures on the other.

The causes which have produced the deficit are obvious, but for the most part uninteresting to the general public. On the side of income, there has been a decided loss due to the loss of trade abroad, reduction of immigration and the world-wide depression.

On the side of expenditures, Congress has with a lavish hand given or endeavored to give aid to special classes. Its experiment in price-fixing and its distributions for the alleviation of those who served in the World War are the most familiar items, and both of these expenditures will exert a powerful influence on the finances of succeeding fiscal years.

While the individual, the corporation and the public generally are bearing tax burdens greater than the people ever before bore, a treasury surplus dwindles away and an appalling deficit takes its place. A similar condition in the affairs of an individual usually produces the comment, "He could not stand prosperity," so unavoidably we come to the conclusion, not as a criticism of any administration but rather as a criticism of the United States as a whole, that the great prosperity of the past has not been wholly to our advantage.

If, however, the condition which confronts us will awaken public opinion and produce corrective action, perhaps we may one day look back upon it as a blessing in disguise.

So much for one day of balance in the life of America, but when we look at this balance and at this day and consider our position with reference to the year of 1931 as a whole, it seems to be fairly plain that we are facing new conditions which must be dealt with in new ways. It seems to be plain that we are closing one epoch of our national life and will have to work and manage in new ways to bring back a new and better prosperity.

There is, for instance, the tremendous factor of immigration. From the year of 1820 down to 1930, a period of 110 years, immigrants from all countries have poured into the United States, making a grand total of 47,737,000, a total greater than the census of 1921 gave to all of the United Kingdom—England, Wales, Scotland and Ireland.

Since 1842, this incoming multitude of men and women looking for work—home-builders, farmers, corporation-builders—has numbered more than 100,000 a year. During six years, the immigrants numbered more than 1,000,000 per year.

Now immigration has by comparison practically ceased and there is no expectation that it will ever be resumed in the same volume. Consequently, here is a many-sided economic loss which of itself must cause a vast change in the agricultural, commercial and social affairs of our country. Almost simultaneously with this ceasing of the tide of immigration, there has arisen the peculiar and confusing problem of mass production in the factories, machine production on the farms, with a general over-production all along the line, resulting in a maldistribution of wealth, manifesting itself most familiarly in unemployment and a rising though subtle demand for redistribution of wealth. Out of this phenomenon is another phenomenon which historians may record as being exceptionally strange in this age of intelligence—the efforts to right things by the artificial control of prices, as if the holding up of prices while production continues apace could by any scheme of reasoning or imagination permanently end the confusion.

All of this would be serious enough under old conditions, but there is a new and hitherto unencountered element in world conditions, whose influence we are already feeling—the influence of the Russian idea which one economist has characterized as one of the most important movements since the beginning of Christianity.

In Russia there is a nation of 150,000,000 or 160,000,000 people who are literally imbued with one idea and all working on one plan—the labor, the property,

and the ambitions of a whole nation pooled in one great effort to do in five years the work of fifty, to pour into the great world markets commodities and goods at prices which will beat those of the old capitalistic nations.

Whether Russia succeeds or fails in this ambitious and unparalleled undertaking, the fact still remains that even now and for years to come the influence which the Soviet is likely to exert on world markets is something we cannot avoid. America must reckon on that factor in considering its future.

America always has surmounted and always will surmount every obstacle and out of old adversities has won new prosperities. That it will do so in the future, we do not doubt, but that it will ever accomplish a new prosperity without taking cognizance of all the new and strange conditions standing in the way of success, is unlikely.

We shall have a new prosperity only by bending our energies as never before and by making sacrifices which the people will, no doubt, be glad to make if these times, as all unusual times have, cast up new and clear visioned leaders.

In the Age of Technicalities

AFTER the Soviet repudiation of debts, confiscation of the property of Americans and repeated declarations of its aims to destroy the capitalistic system, which in effect means the destruction of American homes, the solemn hearings of the Treasury Department as to whether or not Russian pulpwood should be admitted to the United States, constitute a spectacle suggesting a national supinity probably without parallel in all of American history.

We are not criticizing the Treasury Department as a whole or any of its personnel, for Congress instead of dealing directly and intelligently with what men of other times would have promptly recognized to be a state of affairs grave enough to take precedence over the ordinary run of "issues," has left the Russian menace to be handled on the weak and small basis of technicalities regarding imports.

One of the most outrageous trends of recent years is such an obstruction and miring of the course of justice by legal technicalities as to arouse doubts as to the prevalence of old-fashioned justice. Main issues have too often had to wait while a battle of fine but futile points was waged, and it is passing strange that what should be a major national issue is left now to be threshed out on mere technicalities.

As it could not be proved that the cargo of pulpwood in question at the June hearings was produced by convict or forced labor the Treasury Department ordered it admitted and its price will go back to Russia in goods or gold to help the Soviet on with its Plan of so building that the Communists may at last pull us down to their own level.

Why bother with technicalities when the sweeping unequivocal and sanguinary utterances of the Soviet leaders give Congress ample warrant for commonsense action?

The Moratorium

THE first effect of the effort of President Hoover to lead the world out of the morass of its commercial depression by suspending foreign debt payments for a year has been gratifying. That it inspired business with new hope and new confidence was almost instantly reflected in those sounding boards of men's hopes and fears—the stock exchanges of the world. The upward turn in the security markets recorded the belief of millions that President Hoover was about to lead the way to a higher level.

The second effect, the ready acquiescence of the majority of the nations concerned was also gratifying, and augurs well for a spirit of tolerance, and for the acceptance of the belief that the commercial well-being of Germany will make better business in all countries; and conversely that the collapse of Germany, or the capture of its leadership by a group with ideas more radical than sound, would have a retarding effect on the rest of the world.

The third effect, the hesitancy and inability of France to promptly fall into line unreservedly with the spirit of the Hoover proposal was disconcerting in view of the fact that unofficial and perhaps thoughtless persons on the other side of the Atlantic had on occasion held up America as a Shylock demanding his due.

That the immediate postponement "of all payments on inter-governmental debts, reparations and relief debts, both principal and interest for one year" will relieve conditions dangerously near the breaking point in Germany is amply evidenced by the beneficial effect of the mere proposal; that such relief, assuming that the Hoover proposal is carried to complete consummation, might be but the entering wedge in a plan of campaign for cancellation is a thought that is bothering many observers here and perhaps delighting some observers abroad.

America wants to help the world up out of the depression but public opinion in America is not for debt cancellation though small groups have at times proposed it. Never, however, have these proposals represented public sentiment. It is assumed that if this kindly act is to be regarded abroad as the first step toward cancellation, the voice of America would rise in protest.

The present gesture of good will on the part of the United States is said to have been influenced in some degree by information that something must be done "to save Europe." How often have we heard that cry before, and how often have we responded to it. In the ordinary course of events, one rescue usually is sufficient. If too often raised, the cry for help may lose its potency.

And as all the world is turning a corner, taking new courses of life, confronted with new economic conditions, confronted with the necessity of devising new ways of carrying on in the pursuit of safety, prosperity and happiness, it is to be hoped that this sincere effort of President Hoover, with the ultimate approval of public opinion may furnish the guidance that will at last lead the nations of Europe up to a new prosperity and a broader tolerance.

Trust Work in National Banks

By AUBREY B. CARTER
National Bank Examiner in Charge of Section of Trust Department Supervision,
Office of Comptroller of the Currency, Washington, D. C.

Between 1926 and 1930 the Number of Trusts Administered by National Banks Has Increased 250 Per Cent. During the Same Four-Year Period the Volume of Individual Trust Assets Under Administration Has Expanded $3,500,000,000 or 385 Per Cent.

THE impressive growth of trust service in the banking field is illustrated by considering the expansion in recent years of the fiduciary activities of banks in the national banking system. The passage of the Federal Reserve Act made possible the further extension of corporate trust facilities to practically every section of the nation. The amendment to this Act in 1918 increased the number of fiduciary capacities in which national banks could act and encouraged the development of this function, and the McFadden Act of February 25, 1927, giving national banks indeterminate charters and assurance that their corporate existence would not expire before the trust functions undertaken were fulfilled further stimulated the growth of this movement. Fiduciary obligations may now be assumed no matter how long the period of service promises to be, and the change in the law cleared the way for full trust service by thousands of national banks in all parts of the United States. One out of every three of them is now authorized to render trust service.

2,472 with Trust Powers

SINCE February 25, 1915, when the first permit under the Federal Reserve Act was issued to a national bank, hundreds of these institutions throughout the nation have availed themselves of this opportunity to render additional service to their communities, until at the close of the fiscal year June 30, 1930, there were 2,472 national banks with trust powers. Their banking resources aggregated $23,529,097,073, which represented 34 per cent of the number of banks and 80 per cent of the total banking resources of the 7,252 national banks in operation on that date. Trust departments had been established by 1,829 of these banks which were administering 79,912 individual trusts with trust assets aggregating $4,473,040,926, and in addition were administering 11,511 corporate trusts and acting as trustees for outstanding note and bond issues aggregating $11,803,717,370.

The rapid strides which these banks have made in the trust field are emphasized by considering the activities during 1930 with those of 1926. Compared with that year, these figures represent an increase during the four-year period of 446, or 22 per cent, in the number of national banks authorized to exercise trust powers; an increase of 725, or 66 per cent, in the number of banks actively administering trusts; an increase of 65,370, or 250 per cent, in the number of trusts being administered; an increase of $3,500,000,000, or 385 per cent, in the volume of individual trust assets under administration; an increase of $9,340,000,000, or 379 per cent, in the volume of bond issues outstanding for which these institutions were acting as trustees, while the gross earnings for the same period increased $14,-510,000, or 176 per cent.

The record further shows that 1,829 national bank trust departments in a decade have acquired for administration a volume of individual and corporate trust business equal to one-half of the total resources developed by the banking departments of all national banks over a period of sixty-seven years since the establishment of the system in 1863.

Growth Analyzed

A RECENT analysis of a survey of the operations of the 1,829 active trust departments developed some interesting information about the average volume of trust assets under administration in each trust department; average volume of assets in each trust and average gross earnings of each trust department in towns and cities of different sizes, segregated into eleven groups:

Forty-seven trust departments in places with population of less than 1,000 inhabitants were each administering $36,651 of trust assets, with an average volume of trust assets in each trust of $4,462, and these departments reported gross earnings for the twelve months' period of $749 per bank.

One hundred and thirty-four trust departments in places with population between 1,000 and 2,499 were each administering $94,055 of trust assets; each trust averaging $6,687 in assets, and each department reporting $931 in gross earnings.

Two hundred and fifty-one trust departments in places with population between 2,500 and 4,999 were each administering $181,874 of trust assets; each trust averaging $9,627 in assets, and each department earning $1,399.

Three hundred and six trust departments in places with population between 5,000 and 9,999 were each administering $227,252 of trust assets; each trust averaging $10,944 in assets, and each department reporting $1,875 gross earnings.

Four hundred and twenty-nine trust departments in places with population between 10,000 and 24,999 were each administering $409,902 of trust assets; each trust averaging $14,962, and each department earning $3,206.

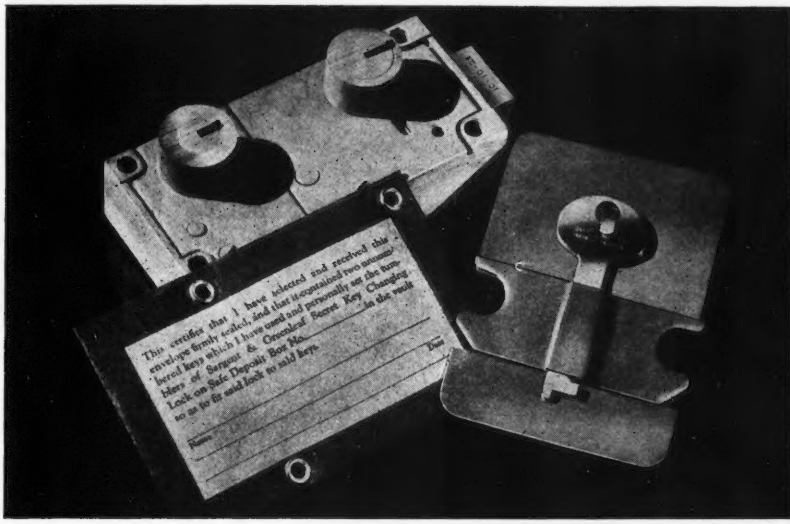
Two hundred and twenty-three trust departments in places with population between 25,000 and 49,999 were each administering $986,158 of trust assets; each trust averaging $32,014 and each department earning $3,912.

One hundred and fifty-six trust departments in places with population between 50,000 and 99,999 were each administering $2,215,649 of trust assets; each trust averaging $39,743, and each department earning $8,929.

One hundred and twenty trust departments in places with population between 100,000 and 249,999 were each administering $4,970,378 of trust assets; each trust averaging $49,603, and each department earning $19,212.

Sixty-six trust departments in places with population between 250,-000 and 499,999 were administering $8,201,622 of trust assets; each trust averaging $81,757, and each department earning $28,109.

(Continued on page 44)



What other LOCK *has these* PLUS VALUES?

Do you know of a safe deposit lock whose key cannot be seen or touched by *anyone* until your customer has rented his box?

A lock whose maintenance cost is practically nothing?

A lock which protects not only your customer, but your bank, from every form of thievery and error?

A lock which has been declared pick-proof by Underwriters Laboratories?

A lock which offers more exclusive safety features than all other safe deposit locks combined?

There is but one such lock in existence—the S&G Secret Key Changing Sealed Key Safe Deposit Lock. Its *plus values* eliminate *at their source* the possibilities of loss by your customer or your bank. For your renter must choose his own key, sealed in its impression-proof metal scabbard; he and your custodian together must set the lock he chooses to fit the key he has selected (see illustrations), and thereafter only your renter and your custodian *together* can enter the box. And the statement your renter signs, that he is first to touch or see his key, is court evidence against fraud!

This S&G Lock can be reset to an infinite number of key-and-lock changes. It is manufactured by the same pioneering organization which made the first time lock ever to be installed on a bank vault door. It is used by such banks as Bank of America, New York; Union Trust, Detroit; Northwestern National, Minneapolis. The coupon will bring you a sample of this lock, and a complete explanation of its *plus values* and how they can increase your safe deposit box business.

S & G, manufacturers of Time, Combination and Safe Deposit Locks have been pioneers in protection since 1865.

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☐ Please send me a sample of the new patented S&G Sealed Key.
☐ Please send me a sample of the S&G Secret Key Changing Sealed Key Safe Deposit Lock, with sample keys and instructions.

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Check here ☐ if you wish a copy of A Quick Trip Through a Lock Factory.

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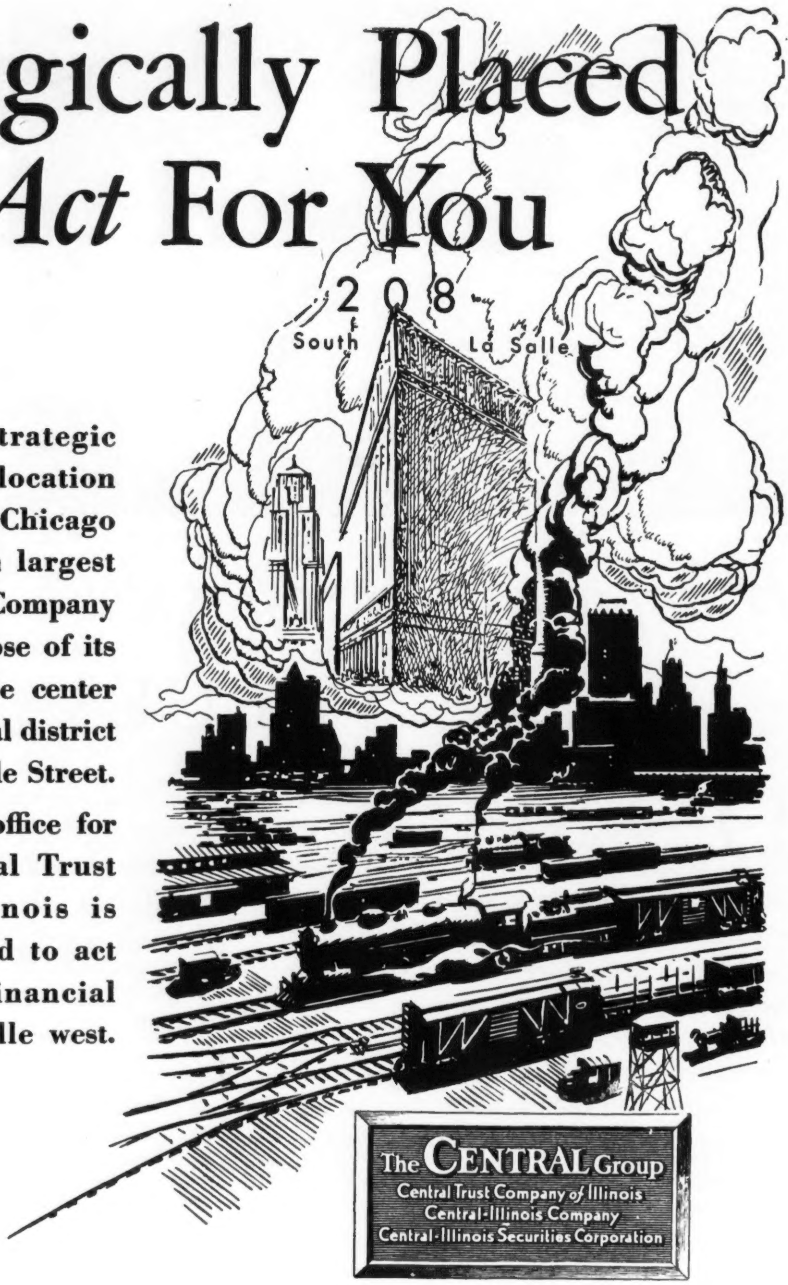


SHARING the strategic advantages in location which have made Chicago the world's fourth largest city, Central Trust Company of Illinois adds those of its own position at the center of Chicago's financial district —208 South La Salle Street.

As the Chicago office for your Bank, Central Trust Company of Illinois is strategically placed to act for you at the financial center of the middle west.

CENTRAL TRUST
COMPANY OF ILLINOIS

208 South La Salle Street
CHICAGO

A Plan for Banks

The Educational Courses and Special Studies of the American Institute of Banking Guarantee the Development of Banking on Sound and Farsighted Lines. Convention Program Proved that New Generation of Bankers Were Aware of Responsibilities.

THE Twenty-Ninth Annual Convention of the American Institute of Banking at Pittsburgh carried on its discussions largely in the future tense because young men and women prefer to look ahead. The events of the past year, while they marked certain noteworthy advances in the work of the Institute, were regarded as less important than the events and changes which seem to be imminent. In the field of the Institute, of course, banking is never so much a fixed science as it is a dynamic force, but this fact was probably more in evidence at Pittsburgh than ever before. Dr. Harold Stonier, addressing the Convention, said: "We have a plan in this organization. The panicky feeling of the present hour in America is in a large measure due to the plan-less past. Our purpose is to help build better bankers and better banking institutions."

Two thousand delegates participated directly in the work of the Convention by means of open discussions in eight simultaneous departmental conferences. Useful ideas for the improvement of service and the increase of revenue were exchanged. Speakers dealt with practical questions of audits and accounting, administration, advertising, business development, deposit functions, credits, investments, investment banking, savings banking and trust functions. The addresses were stimulating and instructive and the informal discussions were extremely helpful. They contained only a little of the classroom and a great deal of the workshop. The program looked forward to new responsibilities and backward over a year of outstanding achievement in the educational activities of the Institute.

Rome C. Stephenson, President of the American Bankers Association and vice-president of the St. Joseph County Savings Bank, South Bend, Ind., in his address before the Convention, expressed with characteristic force two of the thoughts which guided the Pittsburgh proceedings. The first concerned the task of the Institute and the second concerned the responsibility of banking leadership.

Henry J. Mergler, Assistant Treasurer, Fifth Third Union Trust Company, Cincinnati, Ohio, New President of the American Institute of Banking

"I wish there were some way," said Mr. Stephenson, "to make it compulsory for every young man or woman employed in our banks, who expects to hold his job or continue to make progress in his work, to take the Institute courses or their equivalent. There are 300 cities in the country, I am informed, where chapters or study groups are in operation. This means also, of course, that to the men or women in a great many adjacent places who really want to take advantage of Institute work, it is available likewise. It is also true that it could be made available to thousands more bank workers in hundreds of additional cities if the compulsion were placed upon them to provide themselves with some sort of banking education over and above that which they get in the daily experiences of their jobs. The Institute will reach out its helpful hand to any place or to any bank worker who really wants its help.

"This matter of getting and holding a job is a vital and important one under existing conditions. The economists tell us that there are five or six million unemployed in the United States. Of course the bulk of these figures apply to industrial jobs. Nevertheless, all business has produced unemployment as it has had to adjust its operating personnel to the reduced volume of business.

"In reducing working forces any organization will naturally begin among its less desirable and less efficient employees. In this process the department heads are placed under the necessity of culling out the less productive and less proficient workers. They must consolidate the work of their departments in the hands of those best fitted and most willing to render alert, efficient service.

"To the individual employee the meaning of this is plain. It demands efficiency, special fitness and the willingness to give the best that is in him. The possession of these qualities is the very best kind of job insurance he can have. This statement has particular application to the bank worker. The responsibility of banking these days is far too great for it to take chances with any but the very best employees obtainable."

(*Continued on page* 27)

Check Photography

—Yet actually cuts costs!

THINK of the value of a permanent photographic record of all checks passing through your bank!

Recordak, a new-type camera made by Eastman, photographs 8,000 checks on a 100-foot roll of 16 mm. safety film—at the rate of 60 checks a minute. Whenever need arises, the Recordak Projector flashes on its self-contained screen a full-sized image of any check.

With such a safeguard, any bank becomes immune to canceled check fraud. The film record is legally acceptable evidence that the check in question did exist. The screen image shows the face of the original check exactly as it was when paid. Thus, the dangers incurred by the custom of returning canceled checks to depositors are eliminated.

Depositors welcome Recordak protection—are quickly attracted to the bank that offers it. For they know that even if a canceled check is lost or destroyed, they can offer legal evidence of payment of any disputed bill with a photographic copy from their bank.

And Recordak cuts the costs of banking routine. Effects savings of 30% to 60% in the transit department alone—where it speeds up a clerk's average listing rate from 500 to fully 2,500 checks an hour. And there is a substantial saving in the cost of storage space.

Anyone can operate Recordak. Installed on lease. Serviced by Eastman experts. Send for free descriptive booklet.

Could This Have Happened in Your Bank?

CASE No. 120

A DEPOSITOR cashed a personal check at his bank, using a counter check for the purpose and wilfully neglected to enter the transaction on a check stub. At the end of the month he destroyed the unrecorded check and informed his bank that he could not reconcile his record with its statement.

In support of the claim that he never drew a check for the amount of the disputed debit he submitted the rest of the canceled checks, with their stubs, and made an affidavit stating that he never drew the check in question. Since the stubs were in perfect order it appeared that the depositor kept an accurate record of his financial transactions.

Since the original check had vanished, since a bookkeeper may have tampered with the depositor's account, since a dishonest teller may have passed the check through twice, or since, as often happens, the amount of the debit in question may have been charged to the depositor's account in error, the bank was unable to disprove the depositor's claim and was obliged, perforce, to credit his account with the amount of the missing check.

Had the bank been Recordak-equipped, a photographic copy of the disputed check would have been instantly available and the depositor's claim refuted.

Recordak's action is smooth and fast. An operator can easily photograph checks at the rate of 2,500 an hour. No special training is needed.

What Recordak Does

1. Provides an important service for winning new depositors.
2. Prevents canceled check fraud.
3. Provides protection against inside dishonesty and check frauds.
4. Saves 30% to 60% in cost of transit listing.
5. Reduces storage space requirements 90%.
6. Does away with expense and trouble of returning to customers, checks that other banks send back N. G.
7. Provides a photographic record of every check charged to depositors.
8. Gives credit department valuable records for use in credit investigations.

Recordak Corporation—*Subsidiary*

When writing to advertisers please mention the American Bankers Association Journal

prevents frauds...wins customers

"Awfully sorry! I apologize!"

A missing check in dispute. Recordak proves the check was written and paid.

of EASTMAN KODAK COMPANY

Send for the interesting booklet telling the complete Recordak story. It's free.

RECORDAK CORPORATION,
350 Madison Avenue, New York, N. Y.

Please send me free booklet "Improved Banking with Recordak."

Name __________

Street __________

City __________ *State* __________

Charge accounts for cash

....(a protection to all creditors)....

The merchant, the landlord, the doctor realize today that families with credit good for cash loans are better credit risks for them.

The year that has passed has clearly proved how quickly a family's financial resources can be wiped out.

Market losses, temporary unemployment, sickness and other emergencies plunge the customers of every business into unexpected debt.

A very few, less than 20%, have been able to borrow from banks to tide themselves over such times of stress.

Others have let their bills go, damaging their credit standing and handicapping their creditors.

Still other hundreds of thousands of families have turned to their charge accounts, good for cash loans from reputable finance companies, and have borrowed the money to keep all of their other charge accounts free from past due indebtedness.

Household, America's foremost family finance organization, had on its books last year more than 330,000 charge accounts for cash. The more than sixty-six millions of dollars loaned in small amounts on these accounts were largely used for paying bills.

A recent survey showed that in 83 cases out of 100 the money obtained was used to refinance indebtedness—to pay miscellaneous bills, medical bills, tax bills, rent bills, fuel and insurance bills.

Here is proof that the 135 offices which Household maintains in 76 principal cities are bulwarks for all creditors as well as for the majority of families in their vicinities.

Without bankable securities, without endorsers or embarrassing investigations, these offices loan from $50 to $300 on the signatures of husband and wife. Up to 20 months is allowed for repayment in small installments. On amounts above $100 nearly a third less is charged than the rate allowed by law.

As added protection to its customer's other charge accounts, Household helps families establish themselves on a firmer financial standing by offering proper budgeting and expending advice.

◆ ◆ ◆

MONEY MANAGEMENT FOR HOUSEHOLDS, *a helpful booklet on budgeting family income, leading to the happiness of financial security, is offered without charge to all. Telephone, call, or write for a copy.*

HOUSEHOLD
FINANCE CORPORATION....
Headquarters: Palmolive Building, Chicago, Illinois
..(135 Offices in 76 Cities)..(Consult your telephone directory for the office nearest you)....

Turn the dial to your N B C Station every Tuesday night at 8:00 Central Daylight Saving Time and be a guest of the Household Celebrities, featuring America's foremost stars of the opera, concert, and stage, as well as leading thinkers in affairs of national importance.

Extending Credit that safeguards other creditors

There are few merchants, landlords, or professional men who do not benefit, directly, from family finance companies. For such organizations supply the money to pay hundreds of thousands of delinquent accounts, and also to make many needed new purchases. This advertisement is part of an aggressive campaign now appearing in newspapers of four and three-quarter million circulation. Interested citizens are invited to write, for more information about the personal finance business, to Department A5, Household Finance Corporation, Palmolive Bldg., Chicago, Ill.

Plan for Banks

(*Continued from page* 23)

With reference to the constructive part which bankers henceforth must take in the development of American business, Mr. Stephenson said:

"Economic foresight is conceivable not only for the individual but for business as a whole. Millions of individuals and virtually all lines of industry failed to practice it during the last stages of the recent prosperity.

Prevent Unemployment

"THE public welfare of the United States demands that industry as a whole vigorously and sincerely devote itself to the development of plans of economic foresight, aimed to prevent repetitions of the present unemployment situation. The general outline for such plans are clearly definable. They demand that industry adopt a long range view point and lay out its production and distribution plans with the thought that it is far better to have a long period of good sound business activity than a short period of frantically over-competitive endeavor. This would tend to lessen over-production in various lines, to prevent over-expansion of plant capacity, to avoid over-stimulation of public buying and above all to avoid periods of slumps and stagnation following periods of over-stimulation, with their disasters of unemployment."

James C. Chaplin, president of the Colonial Trust Company, Pittsburgh, and vice-president of the Pittsburgh Clearing House Association, spoke before the first business session welcoming the Convention to Pittsburgh. He said: "The potential strength of this organization is a remarkable factor in the building of this great nation." Dr. Edwin Mims, head of the English Department, Vanderbilt University, Nashville, Tenn., spoke on "Leisure and Education." "I knew a great business man," he said, "a man who made a great fortune, who in his old age was utterly helpless, absolutely dependent on people to come and talk with him. He had never read a book, he had no appreciation of all that we mean by the fine arts." The principal speaker at the second business session was Dr. S. Parkes Cadman, radio minister of the Federal Council of Churches. "All religion," declared Dr. Cadman, "all art, all finance, all business, every ship on every sea, and every bridge that spans the gulf and every discovery in the great world of science owes its origin, its inception, its first impulse to the exercise of that strange gift in every one of us—imagination, power to make images."

Richard W. Hill, Secretary of the American Institute of Banking Section, described the evolution of the study courses. At first they consisted chiefly of lectures and debates but this haphazard system was replaced by three prescribed courses in banking, commercial law and political economy. Most of the chapters, he said, had conformed in a general way with this plan but the courses still lacked uniformity. In 1928 the Institute adopted a comprehensive curriculum and this will go into effect this fall.

Ben Aley, retiring President of the Institute and vice-president of the United States National Bank, Denver, Colo., summarized the growth of the organization during the past year. He said that the number of chapters had increased by twenty-five, making a total of 225; the number of group study classes had increased by forty, making a total of 108; membership had reached 74,000, an increase of 4,700; enrollment stood at 48,800, an increase of 3,800; and the number of students had reached 43,400, a rise of 6,050. He said that the revised curriculum comprised text books on Bank Organization and Operation, Commercial Law, Negotiable Instruments, Economics, Money and Banking, Credit Management, Analysis of Financial Statements and Bank Management.

"Thirty-one years of constructive effort finds the Institute in a thriving condition," said Mr. Aley. "It is today a major element in that broad-gauged program of American banking which is building better banks along with the development of better bankers, because they are trained to think soundly and well."

The conference on auditing and accounting discussed important phases of the auditor's work in banking. Speakers dealt with the preparation of Federal income tax returns, accounting and auditing in the foreign department, trust department accounting, the work of preparing reports for the executives and the qualifications needed by members of the accounting and auditing department.

"THE auditor of today is considerably more than he used to be," declared Frank V. Grayson, auditor of the Federal Reserve Bank of Cleveland, "as in the majority of large banks he is the direct representative of the board of directors. He is charged with the responsibility of seeing that its policies are carried out and to initiate systems of control that safeguard the interests of the stockholders and depositors. Although he must be alert in going about his work to find errors of omission and commission, his main efforts are expended in setting up safeguards that should prevent errors and misapplication of funds."

He said that the best advice that could be given to anyone entering the banking business would be to join the local chapter of the American Institute of Banking.

Better bank management through control of the invisible assets, certain interesting facts about the chief clerk's department and problems involved in the control and management of branches were among the subjects analyzed by speakers and discussed by delegates at the conference on bank administration. Conrad Zwingli, member of the general staff of the First National Bank, Chicago, addressed this conference on "Costs in Banking." He disagreed with a widely current custom of comparing bank deposits with, for instance, the raw material used by a factory.

"We do not, in the strict sense of the word," he said, "buy deposits as the manufacturer purchases raw material and, comparatively, we have only a negligible amount of control over their volume. We cannot visualize the motor industry as being in want of steel, copper, glass, etc., at a time when demand for their product is high, or being compelled to buy it when they have no use for it." He said that money rates were influenced eventually by supply and demand but that the price banks paid for the use of money did not automatically and immediately follow the price obtainable for it.

Expansion

THE program of the conference on Business Development and Advertising bulged with useful facts and ideas. How to make the staff sales conscious was discussed by G. Fred Berger, treasurer of the Norristown-Penn Trust Company, Norristown, Pa., and aroused much interest. Other topics included the responsibility of bank advertising men for the maintenance of public confidence in banking, ways of selling the bank to the public, how to obtain leads for increasing the bank's business and how to follow them up, the need for keeping down the cost of advertising without curtailing its effectiveness, and the development of new trust business.

"Most of the members of a bank's staff," said Mr. Berger, "do not understand the various services which a bank has to offer the public. If they are to contact present customers, they must know definitely the advantages which the bank has to offer in depart-

ments other than the one in which they are making the contact. Consequently the matter of informing the staff is almost entirely educational. I think the best suggestion is to have regular meetings every two or three weeks late in the afternoon, and make them short and concise so that not much time is lost."

The conference on credits furnished a detailed panorama of this central problem of banking. Special phases of the question scrutinized by this group included the ethics of credit investigation, the high cost of small loans, operating statements and the classification of loans, collateral loans and problems incidental to the handling of credits in branch banks. "The ethics of credit investigation," declared Harvey L. Welch, manager, Credit Department, First National Bank in St. Louis, before this group, "like the ethics of business, consist in nothing more than the application of sound moral principles. Unless business men adhere to and accept some sort of standard practices, sound cooperation is impossible. In seeking and giving credit information, all those involved should realize, first and foremost, that they are acting as trustees for other people." He said that a bank's credit operations should be carefully supervised by a properly trained executive.

Gold Settlement Fund

DEPOSIT functions were discussed by competent speakers at the conference which specialized on that subject. John A. Johnston, assistant cashier of the Baltimore branch, Federal Reserve Bank of Richmond, described the economic and historical background of the Federal reserve gold settlement fund and some details of its operation. Other topics included in this instructive program were the collection of coupons, methods of obtaining new accounts and the importance of the new business desk as the first point of contact with customers, the dual teller system, the transit department and problems in the handling of non-cash items. Mr. Johnston, listing some of the transactions comprised in the daily settlement between reserve banks, emphasized the following: credit for cash items, credit for direct routed cash items, credits for non-cash collections, credit for transfer of funds; and deduction for checks drawn by a reserve bank and Federal reserve exchange drafts.

The conference on "Investments and Investment Banking" heard several discussions of the merits of mortgage bonds, preferred stocks and various types of industrial obligation. Investment management is probably "the most important phase of trust administration," said one speaker, Dr. Ralph E. Badger, executive vice-president of the Union Guardian Trust Company, Detroit. "It is here," he continued, "that the most costly errors can be made and it is here that the most tangible benefits can be brought to the trusts' beneficiaries." He said that post-war developments in domestic industry and international finance had so changed the field of investment management that the task required men of broader economic training and more specialized experience than ever before. Speakers before this group furnished delegates with money saving ideas on a variety of topics including factors involved in the sale of securities by banks to customers, real estate bonds, the work of the underwriter and wholesale distributor, and the investment qualities of preferred stocks.

The Morals of Thrift

A. C. ROBINSON, President of the State Bank Division, American Bankers Association, and president of the Peoples-Pittsburgh Trust Company, Pittsburgh, addressed the departmental conference concerned with savings banking on the subject of "Thrift and Morals." "Fundamentally," he said, "thrift is an expression of good morals; it is the practical and visible evidence of a state of mind directed by good morals." He went on to say that "unless thrift and morals are closely associated — if thrift is to be based only on expediency—it will lack its proper appeal to humanity and could never have attained to its great place in the development and maintenance of civilization." Other speakers presented papers on the prime importance of personnel, the qualifications of a savings banker, the audit and control of the savings department, the segregation of thrift accounts in commercial banks and ways to hold public confidence. W. R. White, assistant counsel of the New York state banking department, on the subject of segregation of thrift accounts, said that the problem in New York, "with which we are faced today in deciding what should be done with our so-called thrift accounts in commercial banks, does not arise from any lack of confidence in the soundness of these institutions but rather from the fact that they have extended their activities to a point where many of them are actually engaged in a savings bank business."

The conference on "Trust Functions" was unusually comprehensive. Two of the speakers, Henry S. Fraser of Syracuse, N. Y., and Joseph F. McCloy of New York City, are members of the New York Bar. Mr. McCloy spoke on tax prevention, tax reduction, tax recovery and death taxes. Mr. Fraser talked on the general subject of life insurance trusts. Alexander P. Reed, vice-president and trust officer, Fidelity Trust Company, Pittsburgh, recounted the growth of fiduciary business during the past ten or fifteen years and cited reasons why the public is turning more and more to trust companies for the settlement and administration of estates. "Twenty-five years ago," he said, "estates could be settled by family agreement, without the necessity for filing an account in court. During that period, however, has come the United States income tax, the Federal estate tax, the various direct and collateral inheritance taxes, the laws imposing inheritance taxes on the estates of nonresidents and many other laws increasing the burdens of the executor or administrator." The trust department as a bearer of good-will was another topic which had an important place on the program; also the qualifications of a trust man, the mortgage and real estate problems of a trust department and the pitfalls confronting a young trust department. The address delivered before this group by Aubrey B. Carter appears elsewhere in this issue.

Public Speaking Contest

THE first prize of $500 in the national public speaking contest for the A. P. Giannini Endowment Fund prizes, was awarded to Waller C. Brinker, Jr., of the International Company of Denver, for his address on "The Banker as a Stabilizer of Business." He said that while the Government or society did not owe any man a living "it does owe him the opportunity to make a living; and that opportunity must be guaranteed to all workers." John M. Gordon of the Security-First National Bank of Los Angeles won the second prize of $300. Third place with a prize of $200 was won by V. B. Pitts of the Fourth National Bank, Wichita, Kan., and the fourth prize of $100 was won by Harold W. Wallgren of the Philadelphia National Bank. William A. Polk, of the Bank of America National Trust and Savings Association, Los Angeles, presided.

The Philadelphia chapter won the Annual Convention debate upholding the negative side of the subject: "Resolved that the several states should enact legislation providing for compulsory unemployment insurance to which the employer shall contribute." Members of the team were William K.

(Continued on page 46)

"What do you mean you don't know!"

ON May 7, a bank in a midwestern city placed an order with the Federal Reserve Bank for $57,000 in cash, to be delivered on Saturday, May 9, to cover its requirements for the following week.

The money arrived at the bank on Saturday morning in two packages. It was checked in and verified and then distributed in three packages, one of which, containing $35,000, was placed according to the best information obtainable, in the money compartment of the bank's vault.

The bank's business on Saturday and the following Monday was transacted without the necessity of opening the $35,000 package and on May 11, it was ordered returned to the Federal Reserve Bank. When it came to making up the shipment, however, the $35,000 could not be found.

A thorough search of the premises was made and all employees who had access to the vault were questioned. The F & D was notified and one of its adjusters was sent immediately to the bank to aid in the investigation. However, nothing further was developed. The $35,000 had vanished, no one knew where.

Accordingly the adjuster was authorized to hand the bank a draft on the F & D for the full amount of the loss.

◆ ◆ ◆

Would your bank be covered in the event of a loss of that kind? Not unless you carried a Bankers Blanket Bond! No other form of insurance or bond provides coverage against losses due to the "misplacement" of money or securities.

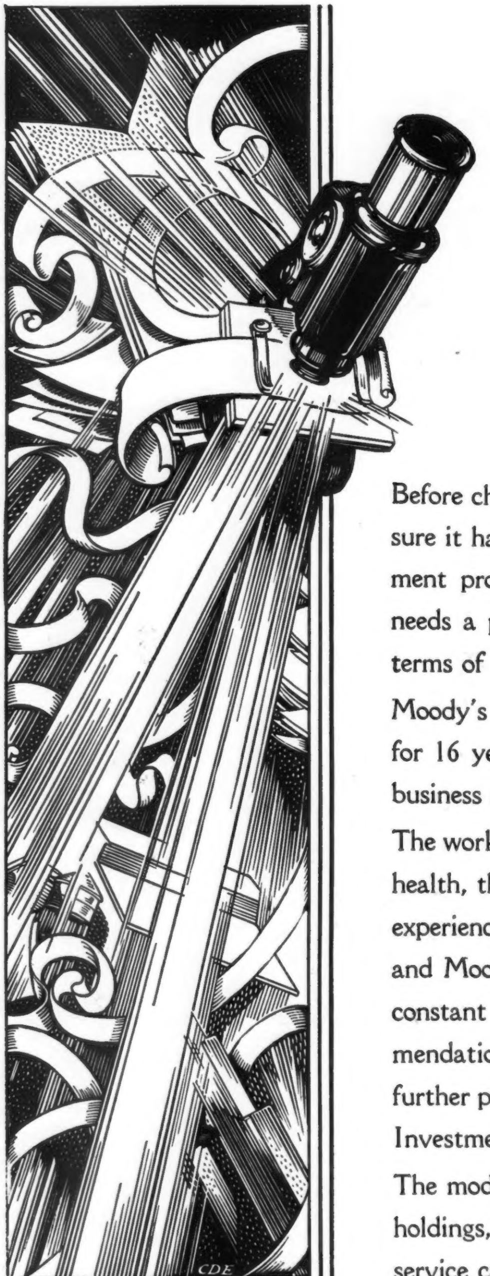
Nor does any other form of bond or policy cover losses due to the "destruction" of money or securities, or to the "theft" of money or securities on the premises or while being transported by an employee.

◆ ◆ ◆

These and many other desirable features explain why banks are turning in increasing numbers to F & D Bankers Blanket Bonds as a means of safeguarding themselves and their depositors against loss. It will pay you to investigate the Bankers Blanket Bond as written by the F & D. A note or a card will bring you full information. Why not write today?

FIDELITY & DEPOSIT COMPANY OF MARYLAND

Home Office: Baltimore Representatives Everywhere
Fidelity and Surety Bonds, Burglary and Plate Glass Insurance



Well Equipped to Look into Your Problem

Before choosing a supervisory service for your bank's bond account, make sure it has the proper facilities for understanding and solving your investment problems. A good fact-finding machine isn't enough. Your bank needs a personal service that sorts out the facts and interprets them in terms of their significance to you.

Moody's Supervisory Service measures up to this standard . . . and has for 16 years. It offers you the personal counsel of men who know their business and whose job it is to know your business.

The work of this service is first to put your bond account in good financial health, then to keep it that way. Through the cooperative endeavor of an experienced counsellor assigned to the personal supervision of your account, and Moody's staff of bond analysts and specialists, we are able to keep constant watch over your holdings, and give you specific, practical recommendations on our own initiative, not merely at your request. And, for your further protection, all recommendations must pass our Committee on Bank Investment Policy after which they are subject to your approval.

The moderate cost of this service is based not entirely on the value of your holdings, but on the work involved in watching over them. How much this service can help you we cannot tell until we have had the opportunity of examining your bond account. This we shall gladly do in strict confidence, and without cost or obligation. Kindly address our Mr. D. F. Shea, Vice-President in Charge of our Advisory Department.

MOODY'S
INVESTORS SERVICE
JOHN MOODY, *President*
65 BROADWAY NEW YORK CITY

The High Cost of Deposits

(*Continued from page 2*)

time certificates of deposit had decreased from 3.64 to 2.36 per cent and on public funds from 2.7 to 1.95.

In reply to the question as to whether or not a reduction in rates on deposits has caused a withdrawal of balances, the verdict of the replies from bank officers in Region One was an overwhelming "No." Excerpts from comments received on this point make intensely interesting reading because they reflect, in the straightforward logic of the banker's mind, a new approach to the whole problem. These will be covered for all four regions more completely in a summary of the survey to be prepared in the near future by the Bank Management Commission.

One Hartford, Conn., banker said:

"No, inasmuch as the depositors seem to realize the economic conditions which now exist and accept the reduction as a matter of sound banking practice."

A Massachusetts bank reports:

"Our first reduction was made in March, 1931, and did not appear to have any effect on deposits. We are now further reducing and do not anticipate more than a normal decrease during the summer period."

A Few of the Reasons

A REQUEST for "observations and conclusions" concerning interest rates, brought from signers of the questionnaire a vast quantity of valuable facts which are now being prepared for distribution. An Albany, N. Y., bank stated:

"There is hardly any doubt as to the advisability of lowering interest rates at this time. Money appears plentiful and, in general banks have considerable difficulty in the investment of their funds with safety and at the same time obtain an adequate return."

A bank in Pennsylvania makes this comment:

"This bank is in favor of a reduction of interest on savings accounts from 4 per cent to 3 per cent and we expect to act on this matter in conjunction with other banks in this district at an early date."

A reply from Richmond, Va., said:

"While the lowering of interest rates may cause the loss of a few small customers, I think that large customers, in fact any intelligent customer, is bound to realize that banks cannot operate safely and pay the rates they have been paying. The rate of interest on commercial deposits and public funds should be less than the ninety-day rediscount rate of the Federal Reserve Bank and at no time should the maximum rate allowed be out of line with earnings."

Particularly instructive are the data covering the work done by clearinghouse associations and state bankers associations in bringing interest rates down to a level at which banks can operate profitably. The most effective way for banks to act in a matter of this kind is together. Some of the state associations have already passed resolutions favoring a reduction of rates and others report that the subject will come up for discussion in the near future. Such a resolution was approved by the New Jersey Bankers Association and the secretary states that "its influence has had a very definite effect among our member banks, and we are sure the trend of interest rates allowed on deposits will be uniformly lower."

Protection for Depositors

THE resolution adopted by the Maryland Bankers Association is indicative of the trend of thought:

"Conservative banking under the present trying conditions makes it absolutely necessary that all banks and bankers use their best efforts to bring about a reduction of interest rates on all accounts, to the end that the investment of bank funds might be put on a basis that will be sound and offer the greatest possible protection to depositors."

Comments received from the heads of various state banking departments pointed in the same direction: the need for a reduction in rates and the wisdom of taking immediate action. In general the commissioners felt confident that the movement toward lower levels already under way would spread throughout their respective states. One letter pointed to the fact that a movement of this kind could not be confined to any one area or state because banks near the boundaries are in competition with institutions of another state.

In Region Two 184 banks reported, this figure being, as in Region One, exclusive of the banks covered by reports from clearinghouses. Of the 184 reporting banks 116 have reduced interest on one or more classes of deposits since January 1, 1929, making a total number of reductions of 255. Decreases in balances, attributable in part at least to the cut in interest, occurred in only forty-six cases of the total number of 255 reductions.

Ninety-six of the banks reporting from this area said that they had effected rate reductions through action by clearinghouses or by some other cooperative means. Twenty banks reported having acted alone. The 255 decreases were distributed among the four classes of deposits in this way:

Commercial accounts	55
Time certificates of deposit	79
Public funds	42
Savings accounts	79

There was a dearth of answers to the question dealing with the minimum average balance requirements and it would be difficult to deduce any useful information from those received. The most common figure mentioned was $5,000, with $10,000 next and $1,000 next. Many of the banks in this region reported that while they had not reduced interest on commercial accounts, they had increased the average balance requirement. About two-thirds of the reporting banks stated that a free balance was deducted before the payment of interest.

Eighty-nine out of a total of 184 banks in Region Two pay no interest on commercial accounts and forty-nine pay interest under certain restrictions. The survey disclosed the general trend of interest rates in this section to be somewhat as follows: The rate paid on savings has dropped from an average of 3.97 per cent on January 1, 1929, to 3.08 on June 1, 1931; in the same period the rate on commercial accounts declined from 2.60 to 1.74; the rate on time certificates of deposits declined from 3.60 to 2.88 and on public funds from 2.92 to 2.18 per cent.

Deposits Down but Little

A LITTLE greater variety can be discerned in the replies dealing with the effects of a reduction on the volume of deposits, compared with the unanimity of opinion among bankers of Region One. A number of replies stated that there had been a slight falling off in deposits but it is noteworthy that none reported withdrawals in sufficient volume to give the bank concern. A majority, of course, reported that withdrawals, if they occurred, had been so small that little attention had been paid to them. It is surprising also to note how frequently the point is made that the bank's earnings had improved in spite of a drop in deposits.

A Florida institution states:

"Where the banks work together as we have done we find practically no decrease in deposits."

A bank in Texas contributed this comment to the survey:

"Banks in the smaller centers are just coming to their senses. They should do as the eastern bankers do—reduce rates as conditions warrant and, by the same token, increase them. Smaller banks have too much fear of competition."

A Louisiana bank wrote:

"Bidding for business by paying interest on checking accounts is as much of a boomerang as the old advertisements: 'No deposit too small' and 'Pay by check'."

Fourteen cities in Region Two report reductions put into effect through action by clearinghouses or other concerted group effort. Most of the decreases applied to savings accounts bringing the level of interest on this class of deposit down to 3 per cent in every case but two. Six of the groups reduced rates on commercial accounts, eight reported cuts in the rate on certificates and one, Nashville, Tenn., decreased the rate on public funds.

State Associations

AN unmistakable trend of thought in the banking field favoring lower rates is reflected in the replies received from the state bankers associations of Region Two. The question has been discussed in all associations reporting and a majority have moved already from discussion to action. The fact should be noted that some states—North and South Carolina for example—are working together on some project for reduction acceptable to both commonwealths. The opinions of various officials of state banking departments complete the picture, as far as this part of the country is concerned. The movement is definitely under way but not yet in full swing.

An examination of replies from banks, clearinghouses, state bankers associations and state banking departments in Region Three tells the same story of interest rates being reduced on all classes of deposits, of such action being planned for the immediate future and of the benefits which have resulted. As in the first two regional divisions studied, most of the reductions have been put into effect without seriously affecting the volume of deposits. In most instances where slight decreases in deposits were recorded the decline was not sufficient to offset the increase in revenue. An Indiana bank reports:

"Our experience seems to demonstrate that a more conservative rate of interest attracts a line of deposits not reached by the highter rates."

That is a significant item and one worth remembering. There were many others, among them a sentence or two from the comments submitted by a Minneapolis bank:

"In our opinion, interest paid on deposits generally has been too high, and when the upturn in business comes, banks should not be too hasty in increasing the level of interest rates. Payment of interest on commercial accounts should depend upon a thorough analysis, for the bank is entitled to a reasonable profit."

Cooperation Helps

FOUR hundred and forty-four banks in Region Three furnished information on which we can base certain valuable conclusions. More than half, 242 banks to be exact, stated that they had reduced rates on one or more classes of deposits since January 1, 1929. The total number of reductions was 439 and of this number there were only eighty-seven cases in which a decrease of deposits followed the drop in interest rates. Approximately half of the 444 reporting banks had been able to effect reductions through clearinghouse action or some sort of agreement with competing banks. The 439 separate reductions were distributed as follows among the four classes of deposits: 134 commercial; 121 time certificates; 104 public funds and eighty savings. The minimum average balance in the commercial deposit class, on which interest was paid ranged from $1,000 to $25,000 with the first figure appearing most frequently. Approximately two-thirds of the banks deduct a free balance before the payment of interest and the amounts deducted range all the way from $500 to $30,000. Two hundred and twenty-four of the reporting banks pay no interest on commercial accounts and 130 replied that such interest was paid with certain limitations.

The replies revealed one fact of particular interest in Region Three, namely, that there were thirty-six banks either making a service charge on public fund accounts, or which have established minimum balance requirements.

In brief, it was found that the average rate paid on savings accounts in this region had declined from 3.83 per cent to 3.15 between January 1, 1929, and July 1, 1931. During the same period the average for commercial deposits had fallen from 2.28 to 1.39; on time certificates from 3.61 to 2.83 and on public funds from 2.59 to 1.93 per cent.

The West Also Acts

IN Region Four 151 banks replied. Eighty of them have reduced rates on one or more classes of deposits since January 1, 1929. Out of a total of 175 separate reductions there were only twenty-five cases in which a decline of deposits followed. Seventy-two banks, or 90 per cent of the number reporting reductions, stated that the change had been effected through clearinghouse action or similarly cooperative effort. The reductions were distributed among the four classes of deposits in this manner: fifty-nine on time certificates; forty-five on commercial accounts; forty on savings and twenty-nine on public funds.

The minimum average balances on which interest was paid ranged from $1,000 up to $25,000, and one institution reported $50,000. A few more than half the reporting banks in Region Four deduct a free balance before paying interest and the amounts named vary from $1,000 to $30,000, with $10,000 appearing most frequently. Seventy-seven banks reported that they paid no interest on commercial accounts and twenty-eight said that such interest was paid on a limited number.

In general it was found that the average rate paid on savings had declined in Region Four from 3.93 to 3.29 during the period between January 1, 1929, and July 1, 1931. The rate on commercial deposits had fallen from 2.27 to 1.44; that on time certificates from 3.79 to 3.13 and on public funds from 2.81 to 2.20.

"We were agreeably surprised," declared one bank in its reply, "when rates were lowered, to hear such little comment from our customers. In our opinion, the lowering of rates is expected." Another states that a reduction was made from 4 to 3 per cent on savings, in the face of competition from banks clinging to a 4 per cent rate, and that no harmful result occurred. Comments received from the bankers of this region reflect conditions in communities ranging from villages to the largest western cities. From San Francisco comes this declaration:

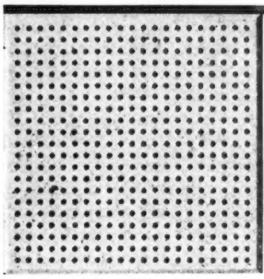
A Boomerang

"THE sooner the bankers of this country become big-profit-minded, rather than large-deposit-minded the better off the banking situation is going to be. The fallacy of buying deposits on a competitive rate basis is invariably a boomerang. Let our clearinghouse associations make rates from which well run banks can make a fair profit—then let us stick to those rates."

The survey as a whole revealed one central and all important fact: In the great majority of cases where reductions have been made, there has been little criticism from depositors and a surprisingly small volume of withdrawals. With this truth revealed in the survey there would seem to be no reason for further delay on the part of banks which still pay too much for deposits.

Thanks to Acousti-Celotex, business in the Denver National Bank, Denver, Colorado, is transacted in an atmosphere that is devoid of noise and confusion. Customers appreciate this extra courtesy. Architects, Fisher and Fisher.

Quiet that whispers "PRESTIGE".... "SOUND JUDGMENT"



The tile shows Acousti-Celotex undecorated—Acousti-Celotex is attractive in its natural buff color. Many decorative effects are possible with this remarkable material. The deep perforations permit painting without loss of acoustical value.

ACOUSTI-CELOTEX has proved that *quiet* pays steady dividends.

Quiet increases efficiency by decreasing errors and nervous strain.

Quiet creates an atmosphere of prestige, of poise and sound business judgment, that impresses visitors favorably.

Acousti-Celotex is a sound absorbing tile that is quickly applied to ceilings in old or new buildings, without interruption to business routine. No remodeling is necessary—the tiles are applied directly to your present ceilings.

Acousti-Celotex tiles are permanent. They require no extra maintenance cost. And they may be decorated in attractive designs *with any type of paint* without loss of sound deadening efficiency.

The Acousti-Celotex contracting engineer in your locality will gladly analyze your noise problems. His survey incurs no cost or obligation on your part.

Write to The Celotex Company, 919 North Michigan Avenue, Chicago, Illinois. In Canada: Alexander Murray & Co., Ltd., Montreal. Sales Distributors throughout the World.

ACOUSTI-CELOTEX

FOR LESS NOISE—BETTER HEARING

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Mr. Hoover's Debt Plan

(Continued from page 17)

ditions, date or dates of maturity, and rate or rates of interest, and with such security as shall be deemed to the best interest of the United States of America."

How Payments Are Made

GERMAN reparation payments which, under the Young Plan, will total about $25,000,000,000 by 1988, were in no way related to the settlement of the allied powers obligations. However, during the payment of reparations by Germany, the allied powers will pay to the United States, in principal and interest, about $20,000,000,000. Under an international agreement, reparations are paid into the Bank for International Settlements, to be distributed, in turn to our former European allies. The latter then use these payments to meet their obligations to the United States.

The average yearly payments of reparations for the period from 1930 to 1965, under the Young Plan, were fixed at $473,700,000. Of this France would receive $294,300,000 and pay to the United States $108,400,000, thus leaving a substantial balance. Great Britain would receive $97,400,000, but, because of her heavy obligations to this nation, would pay to the United States $177,300,000. Italy's share was fixed at $50,900,000 yearly, of which $26,500,000 was to be transferred to the United States. Belgium would pay to the United States $11,700,000 of the $27,500,000 she would receive each year.

Belgium is charged no interest whatever on her obligations to the United States. Only the principal is asked of her and payments of that are stretched over a period of nearly sixty years. She will be required to pay less than $100,000,000 out of more than $400,000,000.

The next reparations payment due from Germany will be about $425,000,000. Of this amount the allied powers would remit to the United States about $245,000,000. Of the whole, France would receive sufficient to leave a balance of about $100,000,000. This means that, in the event Mr. Hoover's plan goes into effect, the United States and France would have to make up, by taxation or by economy in government, the deficit from this source of income. The other nations, including Great Britain, are affected but little, excepting Belgium whose deficit would be about $22,000,000.

Reduced to a per capita basis, suspension of reparations payments for one year will mean each German will have $7.30 less taxes to pay. The per capita tax in England is $3.60 on account of war debts; in France, it is eighty cents and in Italy twelve cents.

The German tax-payer, for all purposes, turns over to his government about 15 per cent of his income. Even with a reparations holiday, the national budget of Germany will require a similar amount of revenue for some time to stabilize the country's economic situation. Today, Germany with a population one-half that of the United States has an unemployed population of more than 5,000,000.

The debacle of the German mark wiped out the German internal war debt, a part of which was revalorized on a 15 per cent basis. This now constitutes a charge of about $175,000,000 yearly on the German taxpayer.

Great Britain is carrying a war debt of the equivalent of $35,000,000,000. This is a domestic debt and independent of her war debt to the United States. She is meeting her annuities to us out of collections from her Continental war debtors. Her domestic war debt calls for about $1,500,000,000 annually in the London budget. France has spent about $6,000,000,000 in reconstruction and rehabilitation, but her economic situation generally is better than that of any of the principal powers.

U. S. Public Debt

SINCE 1916, the last normal prewar year, the public debt of the United States has increased from $1,225,145,568 to a peak of $25,482,034,419 in 1919. Sinking fund operations cut this sum to $16,185,309,831 on June 30, 1930, but during the present fiscal year, there has been an increase estimated at $500,000,000, the first since 1919.

France receives an average of $249,300,000 in reparations from Germany, but pays the United States $108,400,000, giving her a yearly clearance above debt payments of about $141,000,000. This latter sum, if there is a suspension in payments for one or more years, must be made up by taxes or economy.

But through the past decade, what has been the attitude of American government and industry toward Europe and foreign countries generally?

Dr. Julius Klein, Assistant Secretary of Commerce, in a recent radio talk, gave substance to our claim that the United States has made and is continuing to make a liberal contribution to the economic recovery of Europe.

"Under the circumstances," said Dr. Klein, "I think the United States is doing extraordinarily well to put money into new foreign capital issues, thus far, in 1931, at the rate of about $425,000,000 a year, despite economic depression everywhere and grave political unsettlement in numerous important areas. And loans are not the only form of American money sent abroad; here is still another collection of enormous items:

Invisible Exports

"DURING the last nine years American tourists have put into foreign pockets $5,829,000,000. We have paid to foreigners as interest on foreign investments and deposits in the United States $2,377,000,000. Immigrants in the United States, making money from American economic activities, have sent abroad for foreign use $2,345,000,000. In those nine years we have paid to foreign ships, for carrying our freight, $1,959,000,000; in missionary and charitable contributions, we have given outright to foreigners $494,000,000. In that time, the United States Government has spent in foreign countries (not loaned, but spent) $948,000,000. American advertising abroad has added approximately $360,000,000 to foreign assets."

This great total of more than $14,000,000,000 does not include billions in loans and investments of other kinds, nor does it include our expenditures for foreign merchandise.

American minds, management and money have stabilized many foreign industries during the last decade. Formerly, American investors bought German bonds, but the tendency now is to acquire controlling shares in German industries. For example, in 1929, General Motors bought control of the Opel Automobile Company, largest builder of cheap cars in Germany. In the past six months, more than sixty cases of foreigners participating directly in the organization of new German companies has been reported. The total capital of these companies is 570,000,000 marks, of which 230,000,000 went to foreigners.

Some German leaders are concerned over the alienization of German industry; they fear German industry will be submerged by Americans. The opening in Cologne in May, of the new $4,000,000 plant of the Ford Motor Company was marked by a public holiday.

Last winter, the American commercial attache at the American Embassy at Berlin reported on 226 American

(Continued on page 57)

Bank of America

NATIONAL TRUST & SAVINGS ASSOCIATION

(In California)

Bank of America

(A California State Bank)

CALIFORNIA

Condensed Statement of Condition, June 30, 1931

RESOURCES	BANK of AMERICA N. T. & S. A.	BANK of AMERICA A California State Bank	COMBINED
Cash in Vault and in Federal Reserve Bank	$ 54,500,377.14	$1,968,751.85	
Due from Banks and Bankers	54,742,232.69	5,241,373.49	$116,452,735.17
United States Bonds and Certificates of Indebtedness	155,822,673.74	5,337,442.34	
State, County and Municipal Bonds	73,282,069.33	7,257,955.20	
Other Bonds and Securities	27,020,419.13	6,565,412.50	275,285,972.24
Stock in Federal Reserve Bank	3,000,000.00	None	3,000,000.00
Loans, Discounts and Bankers' Acceptances	606,728,768.24	31,128,585.19	637,857,353.43
Bank Premises, Furniture, Fixtures and Safe Deposit Vaults*	48,788,678.57	2,325,047.03	51,113,725.60
Customers' Liability on Account of Letters of Credit, Acceptances and Endorsed Bills	27,375,396.82	18,360.00	27,393,756.82
Other Resources	9,527,863.13	13,721.19	9,541,584.32
Total Resources	$1,060,788,478.79	$59,856,648.79	$1,120,645,127.58

LIABILITIES			
Capital	$50,000,000.00	$4,000,000.00	
Surplus	50,000,000.00	2,000,000.00	
Undivided Profits	4,241,813.16	224,959.22	$110,466,772.38
Reserves for Dividends, Contingencies, etc.	3,310,724.70	75,530.00	3,386,254.70
Reserves for Interest, Taxes and Accrued Expenses	1,637,590.53	65,445.43	1,703,035.96
Circulation	15,000,000.00	None	15,000,000.00
Due Federal Reserve Bank and Federal Funds Purchased	None	None	None
Liability for Letters of Credit and as Acceptor Endorser or Maker on Acceptances and Foreign Bills	27,646,765.58	18,360.00	27,665,125.58
Deposits	908,951,584.82	53,472,354.14	962,423,938.96
Total Liabilities	$1,060,788,478.79	$59,856,648.79	$1,120,645,127.58

*415 BANKING OFFICES IN 243 CALIFORNIA COMMUNITIES

Bank of America National Trust and Savings Association . . . *a National Bank* . . .
Bank of America . . . *a California State Bank* . . . are identical
in ownership and management

YOUR
PHILADELPHIA
ACCOUNT

THERE are many self-evident reasons why you should maintain a Philadelphia account, but one of the best reasons for doing so is

THE PHILADELPHIA
NATIONAL BANK

Distinctive features of our service to out-of-town banks include:

Direct connection with every banking point in the Third Federal Reserve District.

Collection department in continuous day and night operation.

All items accepted at par. No charge for telegraphic transfers.

. . . THE . . .

PHILADELPHIA
NATIONAL BANK
ORGANIZED 1803

PHILADELPHIA, PA.

Capital, Surplus and Profits, $46,000,000

Association Activities

THE National Bank Division has published a booklet dealing with reserves and investments. Included among the subjects covered are the functions of secondary reserve; reserve for unpredictable demands; the necessity for complete liquidity; the composition of secondary reserve; the investment account; diversification and related problems. In a foreword, Edmund S. Wolfe, President of the Division, says: "The subject of reserves and investments is of the most absorbing interest and prime importance to the commercial banker. Particularly at this time are National bankers concerned with investments."

Facts About Clearinghouses

THE Bank Management Commission announces the publication of a manual on the organization and management of regional clearinghouse associations. "The unqualified success of the clearinghouse idea," said Fred W. Ellsworth, chairman of the commission in an introduction, "has long since become an established fact. Originally organized by a group of city banks for the sole purpose of facilitating the trading of checks among themselves, the clearinghouse has gradually developed into an association of banks for self examination; for interchange of vital credit information; for the joint consideration of those problems that are common to all banks, and which can better be solved by joint study and joint action; and for the consideration of principles and methods which will conserve resources, and improve the service rendered to the community."

Convention Calendar

Date 1931	State Association	Place
July 27-28	Montana	Yellowstone Park
Sept. 3	Delaware	Rehoboth
Sept. 4-5	Wyoming	Cheyenne
Sept. 17-18	Kentucky	Louisville

AMERICAN BANKERS ASSOCIATION MEETINGS

Oct. 5-8 Convention,
Atlantic City, N. J.

REGIONAL CONFERENCES

Sept. 17-18 Seventh Mid-Continent Trust, Grand Rapids, Mich.

Oct. 21-23 Pacific and Rocky Mt. States Trust,
San Francisco, Cal.

Nov. 5-6 Southern Bank Management Conference,
Nashville, Tenn.

The Condition of Business

President Hoover's Proposed Moratorium Bolsters Optimistic Sentiment. Rebound in Commodity Markets Stimulates Forward Commitments. Reserve Banks Are Buying More United States Securities. Bonds Rise and Stocks Are Bid Up Rather Sharply.

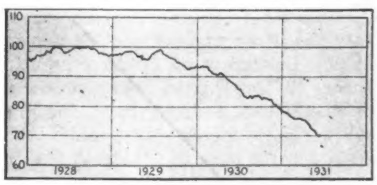
THE proposal initiated by President Hoover for a one year suspension of payments on international government debts has had a profound effect in bolstering optimistic sentiment in the business world. Both in this country and abroad it was received with an acclaim that promises to make the action one of historic importance. The world is weary from debts, deficits and depression and a year's respite might well set the natural economic forces on their way to recovery.

Only a Beginning

IT will take time, however, to see in just what ways and to what extent this action will prove beneficial, and it is by no means certain that it will be adopted in its original form. Probably many people over-emphasize the significance of the proposal and fail to realize that it is only a beginning in straightening out the tangle in world affairs. Apparently Wall Street considers a moratorium on debts synonymous with a millennium of prosperity, and proceeds to discount the rise in stock prices for several years ahead, but the return of prosperity is likely to come, as in the past, from progress on the farms, in the factories and the stores and in the homes, rather than from the course of trading on the stock exchanges.

Industrial production is following a seasonal, or possibly more than seasonal, recession but retail trade is holding up very well, particularly as measured by physical volume of goods sold. Commodity prices have rebounded rather sharply and this has stimulated the placing of forward orders. Textile manufacturing is now slowing down, but so far this year has made an excellent showing, all things considered. Shoe production and sales are running ahead of a year ago and other lines here and there are resisting the seasonal decline.

Low rates in the short term money markets are now spreading rapidly to the high grade long term investment markets and even to the real estate field, where mortgage money rates are being reduced and building and loan associations are lowering their dividend rates. Banks in New York City



Fisher's Price Index shows first upturn in sixteen weeks (1926 = 100)

have an excess of reserves as a result of heavy gold imports and release of gold previously held under earmark. It is apparent that the gold inflow cannot be checked by lowering the bank rate, for the reason that it is sent only because of the necessity of meeting payments due in America and to maintain foreign exchange rates. It is noteworthy, however, that the Federal reserve banks, in the pursuance of their easy money policy, are further increasing their holdings of government securities. Such bank suspensions as have occurred recently are no longer regarded as materially affecting the business outlook but as reflecting past difficulties.

Prices Rebound

ALL of the commodity markets were caught unawares by the President's announcement and sharp rallies occurred, suggesting the existence of a large short interest and of low inventories in the hands of producers and dealers alike. Averages of commodity prices, like other averages, are misleading, in that the individual who buys and sells must handle a particular commodity, which always moves at variance with the theoretical average. Naturally an index number is the only means of measuring the general price level and one of the most sensitive is that constructed by Prof. Irving Fisher, a chart of which appears on this page. In the week ended June 20 this index turned upward from 69.7 to 70.0, this being the first increase that has occurred in sixteen weeks. The year 1926 is taken as 100.

With the drastic decline in prices since the first of the year, many manufacturers and dealers have become increasingly liberal in their purchasing of requirements for the next several months ahead. That this policy of buying on a scale down is wise may be seen from the rally that occurred in the commodity markets when numerous buyers saw prices rising and attempted to cover their needs. There is never a complete uniformity in the time that prices of different goods reach their low points, and the comparison of present prices with the lows established during the course of the past six months shows that most products are now substantially higher.

Commodities Up

TAKING the twenty-five major commodities carried daily in the price tables of the New York *Times*, six were at the year's low on June 25, while all the others were higher. Wheat was up from 89 cents to $94\frac{1}{2}$ cents per bushel, corn from 68 cents to $73\frac{1}{4}$ cents, rye from $51\frac{1}{2}$ cents to $59\frac{1}{2}$ cents and oats from 37 cents to $38\frac{1}{2}$ cents. Coffee was up from $5\frac{1}{4}$ cents per pound to $6\frac{1}{2}$ cents, granulated sugar from 4.35 cents to 4.55 cents, butter from $22\frac{1}{4}$ cents to 24 cents and lard from 7.50 cents to 8.40 cents. Pork was up from $22 per barrel to $23, while beef and flour were unchanged from their lows of $12.50 and $4.50 per barrel respectively.

Of the metals, pig iron and steel billets were at their year's low on June 25 at $17.26 and $29 per ton respectively. Non-ferrous metals were up, however, lead from 3.75 cents per pound to 4.25 cents, copper from 8 cents to 8.75 cents, zinc from 3.20 cents to 3.50 cents and tin from 22.20 cents to 24.95 cents.

In the textile and miscellaneous group, raw cotton was up from 8.25 cents to 9.90 cents, printcloths from 4.50 cents to 5 cents (per yard), silk from $2.22 to $2.50, rubber from 5.80 cents to 6.50 cents and cattle hides from 7 cents to 10.50 cents, the latter advance being no less than 50 per cent. Gasoline at 11.3 cents per gallon and crude petroleum at 25 cents per barrel were at the year's low. All these prices are for wholesale lots.

During the past two months steel operations have gradually declined from around 50 to 35 per cent of capacity, the latter figure being at a level seldom ever reached, although

the decline relative to the spring months has been little more than seasonal. American Sheet and Tin Plate Co. (United States Steel) and Bethlehem Steel Corporation have announced advances in prices of certain kinds of sheets and the general steel price outlook is much stronger than before this advance took place. Scrap steel is still at a low figure because the mills have no occasion to stock up when they are running short time and the dealers are not stocking up for the same reason. Some of the large sellers of scrap, such as the railroads, have recently declined to accept bids and to hold for better prices.

Automobile production in June fell off somewhat more than is seasonal and more than had been expected, due in part to the deferment of introduction of new models until later than usual this year. Chrysler has brought out a new Plymouth with the motor mounted in a unique manner to the chassis so that there is said to be no more vibration than might be caused by an electric motor. General Motors has made an excellent record with the Chevrolet and has kept dealers' inventories to an unusually low point. Ford is planning no radical changes, although some minor improvements are to be added after the usual midsummer vacation period, but the most responsible authorities say that there is no likelihood of the six or eight cylinder car being introduced at a time when business conditions are so depressed. Nevertheless, Ford often acts in ways that are unexpected and the progress of the automobile industry is being watched more carefully this year than perhaps any other line.

Construction Lags

BUILDING construction continues to lag and comparisons with prior years are unfavorable. Residential construction is by no means at a standstill, but is in striking contrast to the "boom" times that have to be attained before some people will admit that business is satisfactory. As regards non-residential building, the curtailed volume of contracts awarded and the long delay on new projects are quite normal for the late stages of a depression period. Few manufacturers desire to put up additional buildings when their plants are operating on part time. Owners of office buildings find that tenants are adapting themselves to smaller quarters when they renew their leases, and apartment owners find that they are forced to reduce rents or have tenants move out, and more than a few have been evicted or could be at any time for non-payment of rent. Mortgage money rates are softening and this will in time aid in new building when there is increased demand for space. Building and loan associations in several states are now, for the most part, paying only 5 per cent annually on their deposits as contrasted with 5½ or 6 per cent a year ago.

Some Gains Appear

STOCKS of crude rubber in May decreased from the previous month for the first time since September, 1929. Consumption by tire manufacturers in the United States amounted to 37,817 long tons in April, the highest for any month since May, 1930. As a specific case to illustrate the fact that all business is not getting worse, the recently published report of the Firestone Tire and Rubber Company for the half year ended April 30 showed net profits after all charges of $2,909,000, as compared with $2,320,000 in the same period a year ago, this despite the fall in rubber prices and the curtailment in tire buying.

United Airlines, transport subsidiary of United Aircraft and Transport Corporation, transported 2,832 passengers in April and 416,099 pounds of mail, its planes flying 952,354 miles. This is a substantial improvement over March, when 2136 passengers and 391,158 pounds of mail were carried and 704,664 miles flown. Sales of military and commercial aircraft and engines by all American manufacturers amounted to $9,018,914 in the first three months of this year, an increase of $39,252 or 0.4 per cent over the same quarter of last year. The annual cost of air mail operations has grown from $765,549 in 1926, when the aeronautics branch of the Department of Commerce was created, to $20,015,969 in 1930.

The shoe industry is near normal in volume of production and wholesale movement of finished products. With an April production of 29,746,542 pairs, increases of 1.3 per cent over March and 2.6 per cent over April, 1930, were made. While it may be said that retailers have not expanded their volume of buying for stock replacements greatly beyond the weekly or monthly turnovers, there has been an increasing tendency on their part to add to the stocks on shelves during the period of low prices.

Non-ferrous metals have been piling up in the hands of producers despite the curtailment of output, but as the customary method of selling is for forward delivery it is certain that a very substantial part of the stocks in refiners' hands are already sold and awaiting shipment. Many consumers are still operating on a minimum of inventory and during the rally in prices that occurred in June there was a heavy buying wave on the part of those who had not covered their requirements because of the belief that prices would go still lower. European consumption has not fallen so far below last year as might be supposed, for the latest figures of the American Bureau of Metal Statistics show that for the first four (or in some cases three) months of 1931 the average consumption of France, Germany and Italy was higher than in 1930, while that of Great Britain was lower.

Lower prices of the precious metals have stimulated their use. Silver is now 29 cents per ounce, whereas at one time it went to $1.50, and many purchasers of tableware are now enabled to use sterling instead of plate. Platinum is now around $40 per ounce, which is still double that of gold, but only a few years ago it was $150 per ounce. This has stimulated its use in jewelry and in the arts and sciences.

Tobacco manufacture has demonstrated the soundness of its claim to being "depression proof." Leading manufacturers of cigarettes—American Tobacco Co., R. J. Reynolds Tobacco Co., Liggett & Myers Tobacco Co. and P. Lorillard Co.—have just raised their wholesale prices 45 cents per thousand to $6.85 a thousand. This is the second advance in two years, the price having been raised from $6 to $6.40 a thousand in October, 1929. This action reduces still further the margin of profit of the dealers, including the tobacco store chains and the grocery chains, and an increase in retail prices will be necessary unless the majority of cut-rate distributors are willing to sell cigarettes at a loss. The cigar business has not been so profitable, although the manufacturers of the nickel cigars, which now make up 67 per cent of the total, have had a fairly good half year.

Oil, Paper and Sugar

GASOLINE consumption is running very heavy this summer and stocks at refineries are being drawn down to a point where the industry is again hopeful that a balance between supply and demand can be reached this year. Prices of crude and refined products have been cut to levels never before witnessed, which has driven some of the new distributors out of the field and discouraged production. It has also centered attention more than ever before upon the need of consolidation into a smaller number of nationally operating organizations. The service station ex-

(Continued on page 40)

ARE YOU...

PAYING TOO MUCH

FOR LIQUIDITY?

FROM time immemorial, liquidity has loomed large as one of the cardinal precepts of sound banking practice. Authorities have vied in recommending more or less definite formulas as guides for determining the percentage of capital — loans — and investments which should be maintained in highly mobile form.

Recently changed conditions, however — due to the stock market debacle and subsequent business depression—now necessitate a re-adjustment in many of the ideas which formerly were accepted as sound by those who had given this subject considerable study.

Obviously, sufficient liquidity to meet every possible contingency always has—always will be—of paramount importance. Furthermore, peculiar situations in each community and in each bank naturally require special treatment.

Nevertheless, it is quite possible that a number of banks which have not brought up-to-date old yardsticks formerly used in measuring proper proportions of quick assets are now paying a price penalty for too much liquidity!

One of the executives of the Standard Statistics Company has recently prepared a report on this whole subject which he presented before the American Institute of Banking. It contains a resume of the reasons underlying the need for revised relations in scientifically proportioning the average bank's funds, as well as new rule-of-thumb ratios which "Standard" is recommending to its clients.

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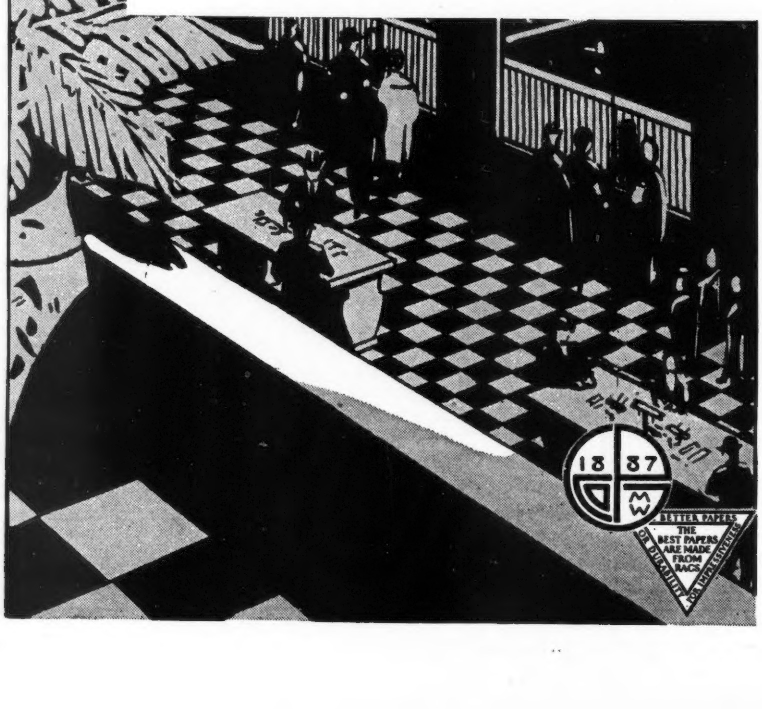
The surface tints are not patterned and therefore permit the lithographer or printer to produce any effect that may lead to beautiful and unique checks. This surface color being without pattern also makes the check more legible and less tiring to examining eyes that look at thousands of checks every day.

These are the reasons that Gilbert Safety Bond is becoming one of the most popular check papers with both large banks and large institutions. Popularity is based on merit. Ask your printer or lithographer for samples and prices, or write direct to manufacturer for sample book.

Gilbert Paper Company, Menasha, Wisconsin



(*Continued from page* 38)

pansion has been overdone to the extreme, and the public could be just as well served if there were only half as many service stations along the roads and half as many different brands of gasoline pumped at each station.

Pulp and paper manufacture is laboring under the burden of a largely overbuilt plant capacity and a slump in consumption of newsprint and other kinds of paper this year. In this industry, as in petroleum, the race to acquire timber lands before they were tied up with other companies has prompted undue expansion of both paper and power facilities. Fortunately the latter always can count on a growing demand for their surplus power, but authorities in the industry say that it will be five years before demand will again catch up with supply for paper manufacturing. It is possible, of course, that this view is too pessimistic in that it gives too great weight to current rate of consumption. If general business should get on the way to real recovery the demand for newsprint and other paper would expand sharply.

Sugar prices have improved upon the consummation of the Chadbourne agreement among the principal producing nations for a curtailment of output and a rationing of exports over the next five years. In this industry there has been too much capital invested, and when the fields are once cleared and planted they will produce for six or eight years, whether or not the cane is needed. It will be a long road back to healthy conditions, and the increase in Russian beet sowings has not helped matters for the rest of the world, but there is reason for believing that the situation has at least been brought under control and that the worst has been passed.

How Is Trade?

ONE of the questions on which there is a great difference of opinion is that of retail trade. At the recent convention in St. Louis of the National Retail Credit Association, a report was given as a result of information compiled from reports from 1200 local credit bureaus to the effect that for the country as a whole retail trade is running 15 per cent under that of a year ago, with some sections as low as 25 per cent under last year and other sections actually ahead.

R. H. Macy & Co., the world's largest department store, reported that in recent weeks the number of items sold has been consistently running ahead

(*Continued on page* 42)

THIS NAME ON YOUR PAPER MEANS SOMETHING . .

When a loan you've made is backed up by insurance . . . by insurance that is complete and specific . . . insurance written by a company with the experience and strength of the Hartford—you can sleep nights.

Your security is secure with Hartford. In its 120 years of service, Hartford had paid out more than half a billion dollars to its policyholders . . . paid it honorably, honestly and promptly.

Hartford . . . a pioneer in insurance in this country . . . is still a pioneer in providing new forms of coverage to meet the new risks that this modern age is constantly developing. Keeping up with the needs of business and industry is the job of insurance experts and Hartford men are experts. There's one near you — your own Hartford agent* — and he's ready to step right around and tell you what's new in policies and protection. Let him post you and provide you with insurance to meet your needs . . . the needs of your customers . . . the companies in which you have an interest. Hartford's signature is a mighty good endorsement to have on any paper.

The Two Hartfords offer Bankers: **Bankers' Blanket Bonds • Fidelity Bonds • Forgery Insurance • Registered Mail Insurance • Fire Insurance • Aircraft Insurance Burglary Insurance • Interior Hold-Up Policies • Messenger Hold-Up Policies Damages Policies • Burglary and Robbery • Plate Glass Policies • General Liability Policies.** ***All other regularly recognized forms of protection are available.***

***If you do not know the name of the Hartford agent look under "Hartford" in your telephone book. If he isn't listed write the Hartford Fire Insurance Co., Hartford, Conn.**

THE HARTFORD FIRE INSURANCE COMPANY AND THE

HARTFORD ACCIDENT AND INDEMNITY COMPANY HARTFORD, CONN.

SECURITY BANK OF CHICAGO, 765 Milwaukee Avenue, Chicago. CHILDS & SMITH, ARCHITECTS. "The entrance represents a magnificent, monumental approach to a large financial institution. Since Rome has always represented strength, the characteristics of the old Roman architecture were employed in this doorway. The elaborate sculptures on the jambs of the doorway are indicative of the financial elements which dominated many of the past centuries; for instance, the old Greek and Roman coins; the symbol of plenty, of agriculture, of industry in the arts. Naturally such a doorway would be surmounted by the eagle of our country, indicative of protection nationally to the many reserves which are entrusted within."

"SYMBOLS"

"Elaborate sculptures on the doorway jambs—symbols of plenty, of agriculture, of industry in the arts."

So speaks this portal—in Symbols.

Your symbol can be displayed just where you want it, in a check of maximum safety on

Wroe Nonalterable Bond

First, you start with a solid color—a definite background—one of six attractive tints. You overlay this tint with a private or special design—and in the center, or wherever you elect, your symbol stands out, delicately, artistically, but strongly and unmistakably.

(Let us give you the name of a lithographer in your community who can furnish you checks of this character)

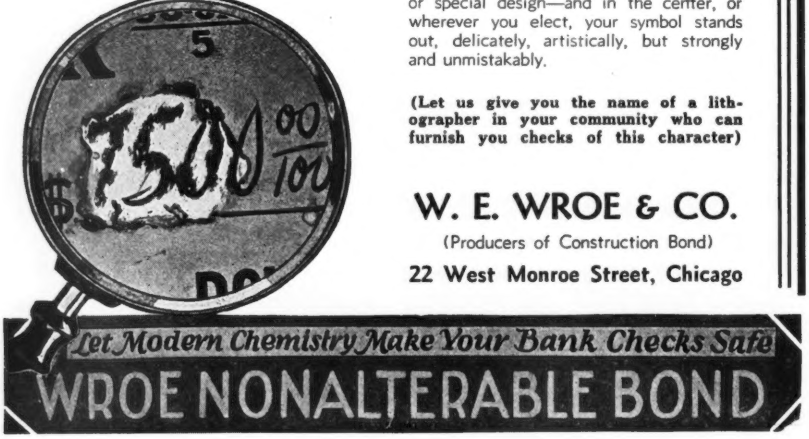
W. E. WROE & CO.

(Producers of Construction Bond)

22 West Monroe Street, Chicago

Wroe Unalterable Bond

sets up more barriers for the master crook than do most other safety papers. It's not obviously a safety paper. If the crook tries alteration, he wrecks the job. See illustration below.



(*Continued from page* 40)

of the corresponding weeks a year ago, in some instances as much as 42 per cent, and that the dollar increase was also very substantial. This large increase of business has necessitated the employment of 850 more people at Macy's than they had a year ago and large increases in personnel have also been made at their other three stores, in Newark, N. J., Atlanta, Ga., and Toledo, Ohio.

In commenting on the advertising campaign that is regarded as responsible for the increase, Jesse Isidor Straus, president, said: "We are hopeful that stores everywhere will join aggressively in this movement to dramatize the fact that prices are for the most part lower than they have been in the last ten years, and thereby persuade the public to buy freely. And when the public buys freely we believe we shall have at work one of the forces necessary to improve business."

The president of F. W. Woolworth Co., largest operators of five-and-ten-cent stores, who recently have begun a large expansion program of stores on the Continent, has stated that the company's reports received from all sections of the country show a gratifying improvement in sales and that he believes business has turned the corner and is on the uptrend.

Sales of the Great Atlantic and Pacific Tea Co. for the five-week period ended May 30 amounted to $102,946,053, compared with $104,673,214 for the corresponding weeks of 1930, representing a decline of 1.65 per cent. Expressed in tons, however, sales during May amounted to 563,223 against 488,753 in May, 1930, an increase of 15.24 per cent. During the past twelve months there has been a reduction in prices by this organization of approximately 17 per cent.

No figures are available to show accurately whether or not the gains of the large chain store and department store companies have been at the expense of the small independent retailer. Some of the retailers who are good merchants have been able to readjust their prices and overhead expenses promptly, and in such a period as the one through which we are passing the flexibility of action possessed by the unit store gives it a marked advantage over the chain. Undoubtedly the trouble with most merchants is that they are prone to stock up on slow moving goods and then to keep them on their shelves indefinitely until they happen to be called for and can be sold at the price originally listed. The handling of inventories is second in importance only to that of selling, and this is where the chain organizations have an advantage in that they can employ specialists for this and other problems, leaving the store manager free to give his entire attention to the disposal of the goods.

Money Market Is Dull

THE money markets have been without feature during the last month, the unusually easy rates for all classes of accommodation being continued, with a slack demand for commercial borrowing and a further liquidation in secured loans. Commercial paper sold at 1¾ per cent for the first time in history.

That the trend toward lower rates has not yet changed may be seen from the price at which the last United States Government offering was made, i.e., par for a 3⅛ per cent coupon bond running fifteen to eighteen years. Subscriptions were more than seven times the amount offered, which was $800,000,000, and the issue

is now selling at a premium of more than one point.

Further heavy gold imports from Germany and elsewhere, and the release of approximately $90,000,000 of earmarked gold to the reserves of the Federal Reserve System, presumably for the account of the German Reichsbank, have enabled member banks further to pay off their indebtedness to the reserve banks. During the month the New York banks have had an excess of reserves at all times that could not be employed in the short term money market, nor even sold to other banks. If such funds were pressed on the call money market they would break the rate below 1½ per cent, as happened on one day when the renewal rate went to 1 per cent per annum.

Changes in the condition of the reporting member banks' statement have been without significance, although there was some increase in the amount of "all other loans," that is, other than loans secured by stocks and bonds. While this total is considered representative of commercial borrowing, too much importance should not be attached to minor fluctuations inasmuch as it is made up, in addition to strictly commercial bills discounted, of a wide variety of other items, both domestic and foreign, including "Federal funds sold"—sometimes carried on the ledgers as "bills purchased." Many banks have found themselves with a temporary excess of reserves, either because their deposits decreased and thus required a lower reserve balance, or because of receiving gold imports and sending them to the reserve banks for credit. In connection with government financing, as on June 15, there is often a substantial transfer of individual deposits to the credit of the government, and against the latter, except postal savings deposits, member banks are not required to carry any reserve. Banks usually attempt to sell any excess balances arising from these sources to other banks having a deficiency of reserves. Such transactions are treated as one-day loans, and among the large banks sometimes amount to $50,000,000 or more at a time.

Extreme selectivity characterized the bond market during the past month. Gilt edge bonds became a trifle soft, possibly due to the heavy offerings, while the less choice issues rallied sharply and regained a good deal of the ground lost earlier in the year. Public utility obligations have held strongest this year while the rails and industrials slumped badly the first of June and then recovered, and foreign issues have rallied but are still far below their best 1931 prices.

CUT *Tomorrow's* "Overhead" by Scientific Planning *Now!*

MOST of the country's big manufacturing industries thought they were operating quite efficiently in 1928 and 1929. Business was good; margins satisfactory. —But see what they've done now!

Falling prices...lessening volumes...*compelled* economies. Expenses had to be reduced; wastes eliminated; roundabout methods discarded. By closely scrutinizing every operation, every process, source and physical facility, costs have been brought down to a point undreamed of. Current offerings are on an extraordinary value basis. Industry has "cleaned house"...made ready for tomorrow's upswing.

Hundreds of banks...perhaps yours among them...could profit by a similar policy. You would never realize, until you saw it demonstrated, what a difference in overhead could be effected by a really modern, straight-line system, housed in a scientifically designed structure which exactly fitted your needs.

WHY not let our bank-building experts, with their twenty-five years' experience, suggest proven ways and means to reduce your overhead? A complete service is offered. Our men are immediately available. Costs are lowest in years. *Write for information without obligation.*

ST. LOUIS BANK BUILDING AND EQUIPMENT COMPANY

Designers, Engineers and Builders for Banks Exclusively

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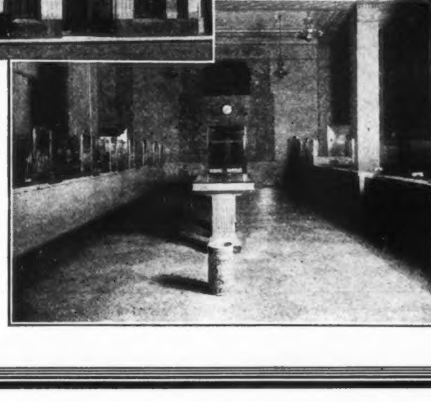

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An Example of Straight-Line Efficiency

Mortgage Money *and its* Protection

The major factors which cause reduced income and impair investment equities are those concerning Rentability...Maintenance ...Operation...First Cost.

Each of these are directly related to the quality of the steel, concrete, paint, plaster and the many other building materials going into the structure, as well as to the perfection of the workmanship combining such materials.

Pittsburgh Testing Laboratory facilities include adequate inspection of materials at points of production and upon the job and are requested by financial interests as a necessary safeguard to such investments.

Send for This Brochure

PITTSBURGH TESTING LABORATORY

PITTSBURGH PENNSYLVANIA

A National Institution

Trust Work in National Banks

(Continued from page 20)

Forty-one trust departments in places with population between 500,000 and 999,999 were each administering $18,579,181 of trust assets; each trust averaging $92,611, and each department earning $76,971.

Fifty-six trust departments located in places with a population of 1,000,000 and over were each administering $35,479,227 of trust assets; each trust averaging $112,399, and each trust department earning $223,339.

Public Recognition

It is difficult for anyone to grasp just what these figures mean. What a striking testimonial this is of the growing public recognition of the desirability of the corporate fiduciary in the settlement of estates and the administration of trusts!

The exercise of fiduciary powers makes compulsory the establishment of a separate and distinct trust department. Trust work differs so greatly from the other activities of a bank that not only to comply with the statutes, but also to make possible the conduct of the work in any orderly manner, a separate department should be set up. The regulations are specific in requiring that the trust department shall be placed under the management of an officer or officers whose duties shall be prescribed by the board of directors of the bank. Separate books and records for all fiduciary activities must be kept, and each trust department is required to maintain a file containing the original instruments creating each trust, or properly authenticated copies; properly receipted vouchers evidencing payments under each trust and properly authenticated reports to courts or others accounting for trusts.

To safeguard further the trust assets, the regulations require joint custody of trust securities and investments, so that it will be impossible for any one custodian to have access to them without the presence of one of the other custodians. Another important regulation is that whenever funds received or held in the trust department awaiting investment or distribution are deposited in the commercial or savings department of the bank, it must first deliver to the trust department as collateral security, government bonds or other readily marketable securities which have a market value at all times equal to the amount of the funds so deposited.

Discretionary Powers

In the investment of private trust funds the regulations are quite explicit. Naturally, where the will, deed or other instrument creating the trust directs how these funds are to be invested, the bank must follow these directions. Where the trust instrument authorizes the bank to exercise discretion, it is declared that the funds held in trust must be invested only in those classes of securities which are approved by the directors of the bank. Where the character or classes of investments to be made is not specified, and discretion is not expressly vested in the bank, the regulations limit the investments to securities which corporate or individual fiduciaries in the state in which the bank is located may lawfully make. In the investment of trust funds from a court trust, all investments must be made by an order of that court. In case the court by general order should vest a discretion in the national bank to invest funds held in trust, or if under the laws of the state in which the bank is located corporate fiduciaries appointed by the

court are permitted to exercise such discretion, the bank can invest the funds in any securities in which corporate or individual fiduciaries in that state may lawfully invest.

Directors' Responsibility

THE requirements are that all investments of trust funds shall have the approval of the bank's board of directors, or a committee appointed for that purpose, and that such approval shall be noted in minutes kept for that purpose.

Finally, a committee from the board of directors is required to make at least twice annually a thorough and complete audit of all records of the trust department, and a complete and careful examination of all securities held in this department.

To expedite the organization and operation of trust departments in the national banking system, the office of the Comptroller of the Currency has drafted an approved form of resolution, which sets out in a simple and concise manner the important requirements that any bank must meet. When trust powers are granted to a national bank, two copies of the resolution are sent along so that these can be filled in and formally approved by the board of directors, and one copy returned to the Comptroller's office for file. It has been found that this resolution is of much help to the average bank which adds a trust department, in that it describes just what must be done to qualify in this growing field of banking.

In the board of directors is lodged the responsibility for the prudent, safe and efficient operation of the trust department. Consequently, it is essential that it not only establish a sound investment policy but that it continuously review specific action of the trust department. Cestui que trusts properly look to the board for redress if there is any dereliction anywhere along the line in the handling of trust securities. Therefore any system must provide that the complete operations of the trust department in the purchase, sale, exchange or other disposition of trust securities be approved by the board of directors. This approval must be a matter of definite, written record.

Board Must Delegate Work

WHILE retaining complete responsibility, it is obvious that the board of directors must delegate the detailed work involved in reaching conclusions on specific securities or trusts. This is accomplished by officially creating a "Trust Investment Committee." To the trust department this committee is the most important factor in the conduct of its business. It sits with the trust officers in the discussion of all investment problems. It examines the new trusts, authorizes all purchases and sales, decides upon major trust and security problems, reviews trusts, and in general guides the whole trust department operation.

The strict accountability to which corporate trustees are held by the courts for exercising care and prudence in all matters of trust investment makes it imperative that the system should provide for a proper record of the action taken or consideration given by responsible officers and committees. These records compel vigilance on the part of those charged with investing trust funds and serve as evidence, if this must be produced, that the trustee has discharged its legal and moral responsibilities toward the trust.

The board of directors of the national bank receiving authority to exercise trust powers upon adopting the resolution creating a trust department makes provision for the appoint-

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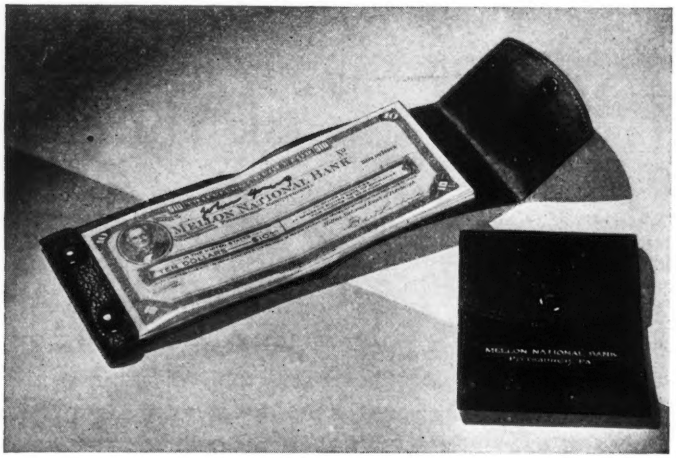

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ment of an examining committee composed of members of the board who shall periodically make a thorough and complete audit of all records and a complete and careful examination of all securities of the trust department, and that the report of such examining committee shall be made a part of the minutes of the board of directors of the bank.

Duties of Examiners

WHILE the responsibility for the conduct of the trust department rests ultimately on the directors, the Comptroller of the Currency is charged by law with the duty of appointing examiners who shall make periodically a thorough examination of all the affairs of the bank and shall make a full and detailed report of the condition of the bank to the Comptroller.

Briefly stated, the duty placed upon the national bank examining force in determining the character of management of a trust department involves the verification of the following items or ascertaining that the trust department is being operated in such a manner that complete detailed checks are unnecessary. The items are:

To see that all trust assets turned over to the trust department are intact.

That they are held by the bank in a fiduciary capacity.

That the income has been collected on income producing assets of the various trusts.

That it has been properly distributed to the beneficiaries, or otherwise accounted for.

That any distribution of principal has been properly made.

That the income of the trust department has been properly accounted for.

That the assets of the trust department reflect lawful and efficient management of the trusts committed to it.

That constructive recommendations for correction accompany all exceptions found by the examiner and set up in his report in such a manner that the bank's supervisory authorities may be enabled to correct the exception complained of.

A Plan for Banks

(*Continued from page* 28)

Carr of the Central Trust & Savings Company, Harry C. Culshaw of the Franklin Trust Company, and the alternate was Albert W. Whittlesey of the Pennsylvania Company for Insurance on Lives and Granting Annuities. The Los Angeles chapter team, arguing the affirmative side, was composed of Robert L. Gordon of the Bank of America National Trust and Savings Association, Wilshire Western branch; Murray M. Chotiner of the Bank of America National Trust and Savings Association, and alternate, L. O. Griffiths, of the California Bank. George R. Herzog of the Union Trust Company, Cleveland, presided.

New Officers

HENRY J. MERGLER, assistant treasurer of the Fifth Third Union Trust Company, Cincinnati, Ohio, was elected President of the American Institute of Banking, succeeding Mr. Aley. Frank N. Hall, comptroller of the Federal Reserve Bank, St. Louis, Mo., was elected Vice-President and the following were elected members of the Executive Council of the Institute: B. K. Dorman, assistant trust officer, First National Bank, Shreveport, La.; Herbert H. Gardner, vice-president, Highland Park State Bank, Highland Park, Wis.; Henry Verdelin, assistant secretary, First Securities Corporation, Minneapolis, and Dale M. Tussing, assistant manager, Security-First National Bank of Los Angeles.

The Institute chose Los Angeles for its 1932 Convention, to be held during the week of June 6 with headquarters at the Los Angeles Biltmore.

Judicial Guidance in Trust Work

(*Continued from page* 4)

there is some question as to the inherent power of the court, in the absence of statute, to direct its sale or mortgage, but these considerations would not apply to trust property other than real estate.

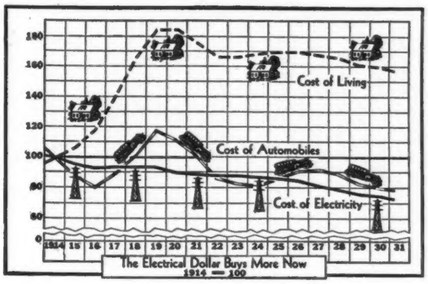
The purpose of this article, in the main, is to direct attention to the desirability, if not necessity, of an established procedure, under which a corporate trustee may seek the advice and guidance, with the effect of judicial sanction, of a court of equity to meet the dilemma whether to retain or sell securities or other trust property and to solve other troublesome questions of trust management. We are not attempting any elaborate exposition of the law upon the question whether such procedure is or is not recognized as lawful in any particular state. It would seem there is need for the establishment of such procedure in many states and if not recognized by the courts, the legislature should regulate the subject.

In North Dakota

IN this connection, it is of interest to note that the state of North Dakota has, this year, attempted a solution of the problem by the enactment of a bill providing for supervision of the administration of trust estates by the District Court and for adoption of rules of procedure in relation thereto. This bill is the creation of Hon. Howard J. Fuller, a former member of the Supreme Court of South Dakota and now practising law in Fargo, North Dakota. The bill is the result of his experience on the South Dakota bench where many perplexing trust problems were presented for decision. The law provides a special proceeding for the administration of a trust estate the aim being, to quote Judge Fuller, "to establish the means to a judicial approval of all steps taken by the trustee and adjudication of the rights of interested parties from time to time, during the administration." Judge Fuller says that "the interest of the trustee in that supervision is related to the approval of its acts, contemplated or performed. The interest of the cestui que trust is in having a speedy and inexpensive means of procuring the filing of reports or proper execution of the trust."

This law has been well worked out and a pamphlet has been issued by its author in which it is explained in detail.

Leading the Downward Trend *in prices*



RESIDENCE ELECTRICITY that cost \$1 in 1914 costs 71 cents now. Automobile values costing \$1 then are 79 cents now. In contrast, general living expenses that were \$1 in 1914 are \$1.53 now.

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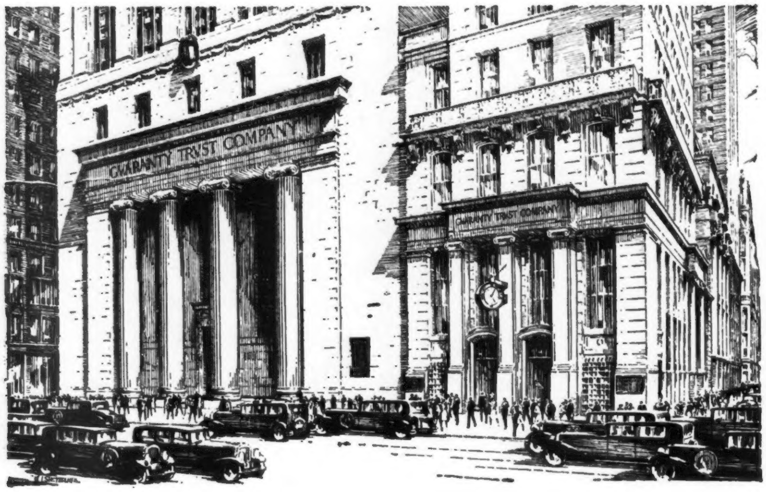
The Attack That Failed

(*Continued from page* 6)

Testimony in favor of thrift appears to be fully as easy to find among successful women. The woman on the lower East Side who, in response to the social worker's inquiry, replied, "No, Ma'am. We don't waste none of our money savin' it" does not appear to be representative of a large group.

Kathleen Norris, in writing of her early struggles, says: "We lived upon our little income splendidly, saved money, and enjoyed life to the last second. There is all the difference in the world spiritually and psychologically in being on top of expenses or buried under them."

Gene Stratton Porter said: "For years I made a practice of having my publishers split my checks. One-half I spent for the comfort of my family and the development of my ambitions; the other half I saved for the rainy



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day which seems to be inevitable in every life. And had it not been for the savings for the rainy day which did come, twice in my life, I would have been up against a very unpleasant situation."

So widespread has been approval of the practice of thrift as a wholesome and beneficial activity that the word has come to mean not only good management and prudence, but achievement itself. According to Webster, thrift means a thriving condition, success, prosperity.

A further cause of the collapse of the anti-thrift movement is found in the fact that thrift is one of the most deep-seated of all human instincts. Primitive man learned thrift in the best of all schools, that of human experience. With a warm, soft, and vulnerable body, he arrived in a primitive world, a prey to the elements. Summer went, and with it the fruits and berries on which he found subsistence. Bitter cold drove him into caves for protection. The wild animals he had learned to trap and kill moved on to other lands or retreated to the mountain fastnesses where he could not follow. The fish he had learned to catch moved with the seasons to other banks and were no more. When a new summer came, it brought drought, and the parched land gave forth no fruit. Or perhaps floods came.

It is little wonder that from these desperate experiences man learned to husband his resources. He learned to salt fish when they were plentiful to provide food for the periods when few fish were to be had. He learned to cure meat for the winter, to dry and store fruits and vegetables, and to lay aside supplies in his cave against the day of drought, storm, or other calamity. Psychologists tell us that thrift is instinctive with the race, a part of the unlearned original equipment with which we are brought into the world. The instinct is strong in primitive peoples and in animals. Bees save; so do dogs, squirrels, and birds. Give a bone to your neighbor's dog, and he will bury it. The infant next door pries up the aluminum lid of his highchair and inserts thereunder bits of toast, bacon, and the like, to be retrieved later. Neither dog nor baby ever suffered from want; their action is instinctive.

The Desire to Spend

THRIFT is a much older and more powerful motive than our desire to trade, truck, and barter, out of which our modern productive and distributive machinery has grown. The desire to trade is at best only a "propensity," Adam Smith said; and Taussig, in his *Inventors and Money-Makers*, doubts very much that it is powerful or deep-seated. It is not present in animals, it is weak in primitive man, and is not, like thrift, instinctive.

Our instinct of thrift is firmly intrenched in our nature. It has stood us in good stead in many a trying period. It has behind it centuries of personal and social approbation. Judging by the lack of success that has attended the most recent attack upon it, stronger and more potent arguments than those yet advanced will be required to weaken its position. If it comes to actual conflict between thrift and our modern productive and distributive machinery, it is quite possible that it will be necessary to change the machinery to fit the instinct of thrift rather than change the instinct of thrift to fit the machinery.

A. B. A. Convention Objectives

(*Continued from page 7*)

itable effect of diminishing revenues and consequently energetic action has been taken through the Divisions and Commissions of the Association, to stop free service leaks and find new sources of income. Under the spur of the depression, therefore, banking has made progress toward eliminating waste, toward modernizing equipment and toward putting itself in condition to meet the demands of returning prosperity.

The program being arranged for Atlantic City is an extremely practical one. Its chief motive will be the distribution of facts and information of a sort which delegates can take home with them and put to work immediately at a profit. New aspects of banking questions discussed last year at Cleveland—such as money rates, mergers, group banking, investment trusts, personnel management and corporate trusts—will be adequately covered, along with problems which have arisen since October.

In the broader field of general conditions touching commerce and banking here and abroad, events of tremendous importance to every member of the Association have occurred since the Cleveland meeting. Unemployment has increased all over the world, with only isolated areas reporting a contrary trend. Commodity prices have continued steadily downward almost without interruption. Russia's attempt to achieve a century or two of industrial growth in five years is no longer an economic fantasy but a practical problem. Revolution, arising from economic factors, have occurred throughout Latin America, also in Spain, and rumors of possible revoluions in other countries have become so commonplace that they no longer command a place on the front pages of newspapers. China has gone back to civil war.

The Bank for International Settlements, moreover, has concluded its first year and is proceeding to take on new tasks. Considerable discussion is taking place relative to the establishment of other international banks to perform tasks not included in the orbit of the Basle institution. Problems of foreign trade, tariffs, gold distribution, exchange, the stabilization of basic commodity production, and questions involving central bank cooperation, have increased in number and complexity. All of which touches in some way the business of banking and a banker who ignores them cannot be considered well armed.

As heretofore, the program will be arranged so that there will be no conflict between important sessions of divisions, commissions and committees. Each delegate will be assured an opportunity to get the fullest possible value out of the Convention, and at the same time take advantage of Atlantic City's facilities for relaxation and entertainment. Since the Convention in 1925 a new Municipal Auditorium has been completed. The structure cost approximately $15,000,000 and has an arena 350 feet wide. The great trusses spanning the top are so high that a thirteen-story building could be set up inside the Auditorium.

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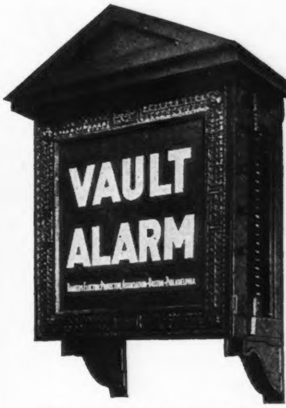

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Why Wage Earners Go Bankrupt

(*Continued from page* 11)

fear of losing his job is an effective club over the debtor's head. When he has been oversold installment goods, he borrows from loan companies to pay his installment obligations. He refinances payments on these by still more loans. Rates are fairly standard at 240 per cent per year, but they may be higher for very small loans or for colored employees. Such borrowing only postpones the evil day. Since the creditor can seize all of the debtor's wages, the debtor goes bankrupt. His family must eat and bankruptcy releases his pay. A few payments on a cheap suit or watch pay the cost of these articles to the seller. A few months' interest returns the principal of the money lender. Legitimate business holds the bag when bankruptcy finally comes.

A casual glance at the bankruptcy records of Kentucky supports these statements. Among industrial wage-earners in Louisville, 80 per cent of the bankrupts had loan accounts and 64 per cent had installment accounts listed as liabilities. The average number of loan accounts was four and one-half per bankrupt. Probably a much higher percentage had dealt with installment companies. But the legitimate installment companies had for the most part been paid or had repossessed their goods. For the most part, the ones that were left to be listed as creditors on the bankruptcy petitions were those whose goods were worthless and who must rely on the income of the borrower to collect.

The credit racket, of course, plays on ignorance. I had occasion to talk to one colored boy who had come to the Louisville Legal Aid Society for help. He brought with him summonses from three installment houses and four loan companies. His pay check was held up and his house was without food. He wore a brand new suit, green with wide purple stripes, that would have looked as if it had been tailored out of burlap sacking were it not for its vivid color scheme. Upon questioning Sam admitted that this suit represented one of his indebtednesses. I asked him how much he paid for it. "Three dollahs," was his answer. "How much a week?" "Three dollahs," once again. "For how many weeks?" "Ah don' know."

We got the complaint. Sam had made two payments totaling $6. The balance sued for was $35 plus $2.70 court costs. The suit was probably worth the $6 already paid. The price was $45 payable in fifteen weeks. Sam only knew that $3 took it out of the store and that $3 a week would have paid for it in some indeterminate time.

Negroes are not the only victims. Wherever educational standards are low, and laws are favorable to ready collections against wages, the credit racket thrives and bankruptcies follow. The more steady the employment, the more subject is the employee to abuse by the credit racket. Railroad employees are constant victims. In Louisville, eighteen of the nineteen railroader bankrupts studied owed money to ninety-five loan companies. In

Ashland, twenty-seven out of twenty-eight railroader bankrupts had 105 loan company creditors and twenty-five of them had installment obligations. In Covington, twenty railroaders appeared in the bankruptcy records studied and all twenty owed loan companies. The average number of loan accounts was more than six for each bankrupt.

The consumer, even if in an inarticulate way, is the master of business. The banker who lends money against the inventory of a merchant is placing his faith in the ability and willingness of the consumer to buy these goods. The industrial bonds in a bank's portfolio express, a little less directly, the faith that there will be purchasers for the products of that industry—again back to the consumer.

Business is bad in certain cities because it is too easy to collect debts. This sounds like an anachronism, but it is true. The legitimate merchant says, "When I sell a man coal or shoes or groceries and he promises to pay, I expect to be paid and if necessary to enforce payment in the courts." He says, "My credit losses are already tremendous. Shall I risk further loss by protecting my customers against myself?" Consequently, merchants in all these states resist change in the laws governing collection of wage-earner debts. But the chief source of loss is bankruptcy and bankruptcy is caused by the racketeers and not by legitimate business. Purchasing power is the golden egg. The goose is being slowly poisoned by the credit racket in a hundred American cities.

New Books

BANK SECONDARY RESERVES AND INVESTMENT POLICIES. By Paul M. Atkins. Published by the Bankers Publishing Company, New York City. 158 pages.

In preparation for the writing of this book Mr. Atkins discussed the question of reserves with several hundred bankers. The result is a concise and complete treatise on the investment problems of commercial banks, with special attention given to the question of secondary reserves. Most of the bankers consulted were located in the Middle West and many contributed information and statistical material from their own experiences. The index is unusually complete and information on specific phases of the investment problem can be located with a minimum of searching.

WALL STREET AND LOMBARD STREET. By Francis W. Hirst. Published by the Macmillan Company, New York.

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THE COAL INDUSTRY OF THE WORLD. By H. M. Hoar. Published by United States Government Printing Office, Washington, D. C.

INVESTMENT BANKING. A Case Book. By Clinton P. Biddle and George E. Bates. Published by McGraw-Hill Book Company, Inc., New York, London.

SIXTY YEARS OF BRANCH BANKING IN VIRGINIA. By George T. Starnes. Published by the Macmillan Company, New York.

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Russia's Substitute for Money

(Continued from page 14)

Commissary Kalmanovitch and the Finance Commissary Briukhanoff by Commissary Grinko. Inflation was to cease. "In future," said Kalmanovitch, "the Plan will be financed only in measure as resources come in." Both of the new authorities promised that there would be no increase of circulation at all in 1931. For the purpose of "saving and financial reconstruction" was devised an intercalary plan for the quarter-year, October to December, 1930. This quarter's receipts for investment in state concerns were to exceed the actual investments by 500,000,000 rubles, and the surplus was to be used for reducing circulation. In fact circulation was reduced, but up to date by only 50,000,000 rubles.

The Plan, however, was not curtailed. Owing to the fact that industry and agricultural collectivization had vast projects under way which were based on the assumption of a continuing inflation, the new deflation policy led to a crisis. Production in the intercalary quarter-year fell below the program. Hoarding was inevitably encouraged by the new expectation that the currency depreciation would cease, and hoarding caused an acute shortage of money. Too little money was seen side by side with too much. Finally it became difficult to pay wages in cash.

This paradoxical kind of "deflation crisis" strengthened the anti-money agitation. In so far as major instruments of credit are concerned the campaign must however be dated back to January, 1930. In that month a Soviet decree summarily abolished bills of exchange and substituted direct State Bank credits. As all industrial trusts are required by law to keep accounts in the State Bank, this measure meant that a debt by, say, a manufacturing trust to a raw material trust would be discharged not with a bill for which the creditor could get State Bank cash but by a mere booking operation. The reform was championed on the ground that it would enable the State Bank to supervise the fulfillment of the Plan. As the State Bank would directly give credits it could, before giving them, satisfy itself that the Plan was being observed. The real, or chief, official motive seems to have been to prevent further investment of the yields of bill credits in expansion enterprises which ought to be financed with long-term loans.

Still earlier, the Soviets had prepared for this measure by centralizing banking, that is reducing the number of credit institutions in which bills could be discounted. Since 1926 400 banks or bank branches have been closed and the number of credit cooperatives has been reduced by 4000. The too-rapid collectivization of agriculture, it was discovered, was a potent factor in the deflation. A decree of December last therefore transferred all long-term agricultural credit business to the State Bank, and simultaneously ordered the liquidation of the General Cooperative and Collective Bank.

The new deflation did not result in any fall of prices in the free market. Prices even rose. By excluding altogether cash payments from important branches of business the currency circulation in those branches of business in which cash payments were retained was relatively increased, and a price-fall was made impossible. But side by side with this a money famine prevailed owing to the fact that state enterprises had been deprived of the most convenient means of raising credit. Industrial undertakings began to pay their workmen in "wares-certificates," which were really authorizations to obtain necessaries from state and cooperative retail stores. This innovation closely resembles the obnoxious "truck system" which most European governments forbade by

legislation already in the nineteenth century. Russia once more proved that state capitalism can do many questionable things which are forbidden to bourgeois capitalism.

The Kremlin next took up seriously the problem of expelling money from petty debt settlements. It decreed that in 1931 all periodical payments are to be made without money. Already taxes, rents, and gas and electricity debts are discharged via booking in savings bank accounts; and this year the savings banks are to become the basis of all wage payments. The State Bank, in which employing concerns have accounts, will credit the savings banks and the savings banks will credit the employee. The savings bank will henceforth pay its depositor's direct taxes without asking his permission. And the same system is to be used in order to compel the pampered collectives, which are always in arrears, to discharge their liabilities to the state.

All these measures make for restriction of the use of money in a formal sense. But the new policy has a human and psychological aspect; and though money is ever less in use monetary transactions continue. The mere human being, it appears, cannot eradicate his congenital passion for finance. The new monetary transactions are merely the old monetary transactions clothed in a clumsier form. Wares certificates pass from hand to hand, are used in Moscow gambling houses and may even be discounted. A criminal trial for speculation brought out the fact that workmen who, owing to the intervention of a holiday, cannot get vodka from the state spirit stores, get it from some private collector of vodka, who retains a fifth of the bottle in the form of discount. And the vast industrial trusts are just as human. They surreptitiously affix their signatures to wares bills promising future payment of steel or textiles and get, less a discount, immediate delivery of flour or textiles with which to meet the maturing wares certificates of their employees.

Here again history repeats itself. Germany's bonds in units of coal and rye, which were issued during the extreme inflation of 1922 and 1923 (and which incidentally are still in circulation) were in principle identical with Russia's wares certificates and wares bills. And the origins were the same. In both countries the origin was currency depreciation, that is violation of the principles of sound money; and there was no connection with the alleged superfluity and criminality of money itself, the Soviet argument.

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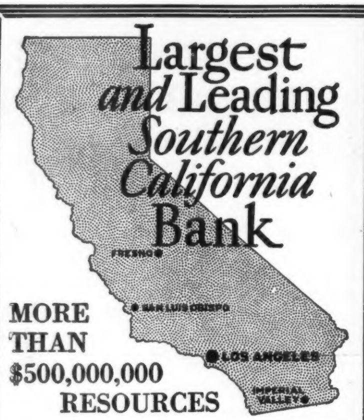

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When the Public Is Sold on Service Charges

THE principal difficulty usually faced by any group of banks seeking to establish a service charge is that of selling the idea to the public on one hand, and to the banks themselves on the other. The clearinghouse organization of Cedar Rapids, Iowa, recently inaugurated what were called "measured service rates," and the method selected to get the system smoothly under way proved to be effective.

IN 1924 the Cedar Rapids Clearinghouse Association established a flat charge against unprofitable accounts. In 1931 it was agreed to change the entire basis of the charge making it flexible and strictly in accordance with the number of checks used. Accounts under $100 were required to pay $1 monthly for the privilege of writing ten checks. Any checks in excess of this number would be charged for at the rate of four cents each. Accounts between $100 and $200 paid fifty cents for ten checks and four cents additional for each check over ten. Depositors with balances of more than $200 paid no flat rate but were allowed a stipulated number of checks based on the size of the account. In each case additional checks over the stated number had to be paid for at the rate of four cents each.

This being an entirely novel plan the association was confronted with the task of persuading the staffs of the banks and their customers that the measured service rates were just and reasonable, and would work out to the benefit of both banks and public. An arrangement, therefore, was made with an advertising agency to take charge of a local educational campaign. The program of action was divided into two parts—one aimed at depositors and the other at officers, directors and employees of the participating banks.

The part of the campaign directed at the depositors centered in a series of five folders and these were synchronized with newspaper advertisements. The folders avoided completely any arguments or discussion about the cost of handling checks. They placed their entire emphasis on the value of checking service to depositors. The campaign aimed at the personnel of the banks was of an entirely different nature. It began with a dinner dance at which one of the main events was an address by the head of the advertising agency explaining the purpose of the new rates.

THE title of the first folder was: "Explaining the New Basis of Checking Account Service." It was mailed to all customers of the commercial departments of the participating banks. The subject aroused immediate and widespread discussion among bank customers large and small. The campaign proceeded step by step. Customers were given full information and there were few complaints and before March 1, 1931, the date set for the schedule to become effective, everything was in readiness. The results of the first month were, in brief, an increase of 100 per cent in the amount of service charges collected and a complete absence of serious objections on the part of customers. During this first month a considerable number of small, unprofitable accounts were closed, the average balance of such accounts being $50. To offset the closings it is already evident that the new accounts being opened since the inauguration of the plan are of much better quality.

Pre-Certified Checks for Student Accounts

A METHOD of handling student checking accounts so as to avoid loss has been evolved by several banks in Madison, Wis. Pre-certified checks for $5 each are sold in units of $100 at a cost to the purchaser of ½ of 1 per cent, or fifty cents.

Students as a class are an old problem with bankers in any university community because they require checking service, yet seldom maintain sufficient balance to make their accounts profitable. Also they are prone to overdraw. The system adopted in Madison was designed particularly to meet the needs of this type of customer, and after six months' trial, it appears to be working out successfully.

Prior to the inauguration of this pre-certified check plan students were required to pay a service charge of $1 per month when the account averaged less than $100 and this meant for most of them a regular monthly payment of $1. Yet $1 monthly hardly remunerates the bank for the expense of maintaining the necessary six window accounts and six machine accounts; moreover the students felt that $1 monthly was extravagant. The system of signing and counter-signing the pre-certified checks is essentially the same as that of travellers checks, but the circulation is limited to the immediate locality.

Good Real Estate Loans

(*Continued from page* 16)

the construction charges. In recent years the practice has grown up of placing a first mortgage to cover the principal part of the cost of the enterprise followed by a second and even a third mortgage to cover almost the whole of the balance, the prospective owner advancing no more than perhaps the realtor's or contractor's profits in the undertaking.

These second or third mortgages or trusts carry high rates of interest more or less commensurate with the risk involved; are attractive to the investor who is willing to take a risk and are proportionately dangerous. Sooner or later most banks dealing heavily in real estate securities are likely to become involved with this sort of financing—in the large banks through security affiliates, in smaller banks in the institutions themselves. When such shoestring financing is advanced to cover the construction of great hotels and apartment houses and even great buildings in metropolitan centers, as has frequently been the case, the dangers increase in proportion. These dangers have become particularly acute in many cities in the country in which there has been an overbuilding of apartment houses and the problem has been accentuated by the deflation of real estate values in most cities in line with general deflation. Most of the difficulties of banks in the country with real estate security holdings have been in connection with loans originally placed in the inflation period during and immediately after the war when construction costs were abnormally high on property whose value, under deflation and under recent general business conditions, has so decreased that forced sales do not even bring enough return to cover the first mortgages. While gilt edged first mortgages on residential or other real estate are still in favor and are constantly sought by banks generally and especially savings banks, there is no question that many banks are overloaded with less attractive securities whose value is very problematical. Banks, of course, have frozen loans in many other lines but frozen real estate loans seem frozen a little tighter.

After all, the question of real estate loans resolves itself into a question of sound banking. There seems no convincing reason why high class first mortgage loans cannot be handled by commercial banks up to present limits and perhaps a little further but the experience of the past ten years or so has demonstrated that real estate loans other than strictly gilt edged are dangerous.

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FOR THE MEMBERS OF YOUR STAFF

This issue of the American Bankers Association Journal has at least twenty ideas which can profitably be brought to the attention of the members of your staff, to say nothing of the eight pages of *protective* data.

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AMERICAN BANKERS ASSOCIATION JOURNAL,
22 East 40th Street, New York, N. Y.

GAMBLING *With* Time *is* *Dangerous* Business

You are a Banker or a Bank Director. You are interested in the progress of your bank. You are also interested in the progress of those businesses in your community in which you are a director or directing head.

What a business does in advertising and sales effort between now and January will have an important bearing on the financial statement of that business for the year 1932.

It at last seems to be generally agreed that the bottom of the business cycle has been reached—that we will now march ahead to that prosperous condition which obtains after each major depression. How soon will the businesses in which you are interested again show upward sales curves and increasing profits?

Much of the answer lies in how soon these businesses of yours return to full strength advertising effort. For advertising money expended this fall will keep your businesses in the forefront of the march that should be well underway next year.

You know your own influence, your buying power. The thousands of other Bankers and Bank Directors who read the *American Bankers Association Journal* are an important market that should not be overlooked by the businesses in which you are interested, and a consistent full page advertising campaign in the *Journal* costs only $250 per page. May we tell you more about how we believe the *Journal* can be helpful to your business interests?

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When writing to advertisers please mention the American Bankers Association Journal

Mr. Hoover's Debt Plan

(*Continued from page* 34)

subsidiary corporations in Germany. These included eighty-two manufacturing or assembling plants, sixty-seven distribution units, twenty-four buying agencies, thirteen newspapers, ten shipping companies, ten banks, six accounting companies, five advertising agencies, and four insurance companies. In all, more than $2,000,000,000 is invested by Americans and American industry in Germany.

The United States has invested abroad, exclusive of war debts, more than $17,500,000,000 and nearly one-third of this is in Europe. Because the United States has been a fertile field for investors, it is estimated that there is about $7,500,000,000 of European money invested here.

$17,500,000,000 Invested Abroad

THE total of United States foreign investments as of January 1, 1931, compared with January 1, 1914, follows:

	1931	1914
Europe....	$5,607,332,000	$350,000,000
Canada ...	4,436,011,000	750,000,000
S. America.	3,013,935,000	100,000,000
C. America.	2,985,135,000	1,200,000,000
Australia..	995,051,000	175,000,000
Miscellan's.	490,790,000	50,000,000
	$17,528,254,000	$2,625,000,000

Our foreign investments represent $7,500,000,000 in real estate, industrial plants, banks, plantations, copper mines and other real property, with the remaining $10,000,000,000 in bonds, debentures and other interest-bearing securities of foreign governments, municipalities and corporations.

In giving thought to war debts, it is well to consider the national wealth of some of the powers involved. National wealth can only be approximated, but we generally agree that the wealth of the United States is about $360,000,000,000. This is nearly as great as the combined national wealth of Great Britain (not including the British empire), France, Germany, Russia, Italy and Japan.

Per Capita Wealth

THE per capita wealth of the United States is about $3,000; that of Russia, with a population of 160,000,000, is $300; Germany, with 62,000,000 population, has a per capita wealth of $1,000, while France, with 45,000,000 population has a per capita wealth of $1,500. Japan and Italy each show about $800 per capita.

Great Britain, with 45,000,000 population, has a per capita wealth of about $2,800. The disparity between the United States and Great Britain, however, is greater, when we consider that our national income is more than $90,000,000,000. This is five times that of Great Britain and our population is less than three times as great.

All these facts must be considered in an intelligent study of reparations, war debts and disarmament. The latter subject will come on for discussion when the World Disarmament Conference convenes February 2, 1932, at Geneva, at the call of the Council of the League of Nations. It is a foregone conclusion that whatever course the United States and the allied powers follow in regard to Mr. Hoover's proposal, will have an important bearing on the February conference.

The London Economist, after an extensive survey, announced that the world was spending about $4,300,000,000 for armaments a year. Standing armies of Europe are now estimated to be larger than at any time in history, with perhaps 15,000,000 to 20,000,000 men under arms or in reserve.

INDEX TO ADVERTISERS

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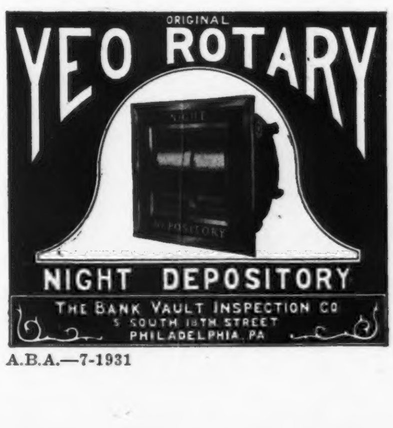

WHAT DO YOU THINK?

Being a more or less personal talk between the EDITOR *and the* READER

The Average Balance Theory

ALLARD A. CALKINS, vice-president of the Pacific National Bank of San Francisco, Cal., on reading Mr. Howard Whipple's article in the May issue opposing the average balance theory as it affects borrowers, found himself in disagreement with the conclusions expressed by Mr. Whipple. In a letter to the JOURNAL he states that the article in question condemned the "misconceptions and misapplications of the theory" but left the theory itself still standing unimpeached.

"The theory of the average balance," he writes, "does not enter into the mortgage loan, the capital loan or the pure accommodation or character loan. If you lend a depositor a small sum to meet taxes, assessments, burial, medical or other momentarily embarrassing expense, the theory of the average balance cannot enter because it does not belong. The theory properly attaches to purely commercial borrowings only and can be thoroughly justified as to them."

Among other considerations justifying the theory the writer says that a customer should bank where he borrows and that if the borrower's income does not equal a definitely fixed and fairly high proportion of his borrowings each month he is not a good risk for commercial accommodation. The banker knows, he declares, and so does the borrower that if a fair cash position cannot be maintained the loan will never be liquidated from the source it is agreed it will be liquidated—earnings.

"A bank has no better current index to the operations of its commercial borrowers," continues the letter, "than the deposit accounts they maintain. Those deposit accounts should be carried in the bank that extends commercial credit and should be in a size commensurate with the business need; in other words, in a size commensurate with the amount of credit extended, that credit itself being based on the capacity of the business.

Unprofitable Large Accounts

LOSSES involved in handling certain types of large and active accounts can be the cause of serious impairment of earnings. Don W. DeVey, president of the Farmers State Bank, Westport, South Dakota, in an address before the Annual Convention of the North Dakota Bankers Association at Fargo, June 19, cited two cases showing the danger of relying too much on the apparent size of an account in measuring its value to the bank. The first instance concerned a locally owned cream station which, starting in a small way, appeared to hold promise of becoming a profitable account.

The undertaking seemed to prosper from the start and did a good business. An examination at the end of the first month, however, revealed that the bank was carrying most of the load. The average daily ledger balance for the month was $178.03, which, in this bank, was larger than the small accounts against which service charges were usually made. The item of float, however, was $212.07, or a sum larger than the ledger balance. It consisted chiefly of drafts drawn on a creamery in a neighboring state. After deducting this float and allowing for reserve requirements the account showed an average daily deficit, or actual overdraft of the bank's funds, of $64.19 on which interest for the month at 8 per cent amounted to forty-three cents. There were 191 checks drawn and twenty-one deposits made during the month, or a total of 212 postings. These together with forty-six items collected, figured at three cents each, cost the bank $7.74, which, added to the forty-three cents interest on the deficit balance disclosed a total net loss to the bank of $8.17 for the month, or $98 for a year, if the account had been allowed to continue on this basis.

A SECOND instance described by Mr. DeVey concerned a stock buyer's account in a small bank. An average daily ledger balance for the month under analysis was $1,066 and the average daily float, made up of drafts on cities some distance away, amounted to $997, leaving a net ledger balance of $69. However, after deducting 17½ per cent reserve required in South Dakota, this balance dwindled to an average daily deficit of $117, which at 8 per cent, lost the bank seventy-eight cents in interest for that month. There were eighty-four checks and eleven deposits or a total of ninety-five postings during the month and these, together with twenty-two items collected, cost the bank $3.51, figured at three cents each. Including the loss of interest on deficit balance there was a total net loss to the bank of $4.29 for the month.

Mr. DeVey said that this was a particularly impressive example. The customer did a business of more than $15,000 for the month on a working capital of $1,066, of which $997 was furnished free of charge by the bank, leaving only $69 of the customer's money involved.

The Dowry of Dollars

THE painting by Walter de Maris called "The Dowry of Shillings" which was reproduced on the cover of the May JOURNAL possessed a romantic quality which appealed strongly to readers. One correspondent wrote to describe a similar gift made by a father in Richmond, Va., when his two sons married.

The father in this modern Dowry of Dollars promised the two brides their weight in silver dollars and a few days before their wedding he took them to a grocery store and found that they weighed 131 pounds each, a coincidence which might possibly have been due to the diplomatic needs of the occasion. However, they proceeded from the grocery store to the bank where each young lady received a bag of silver dollars weighing 131 pounds. A few years later each presented her husband with an eight-pound child and the grandfather was so pleased that he gave each child its weight in gold dollars.

The sequel of the story illustrates the danger sometimes involved in starting a precedent. With the passage of years two more grandchildren arrived and each, of course, received its weight in gold. The question is: how many dollars are represented by 262 pounds of silver coins and thirty-two pounds of gold dollars? Our correspondent says he presented $4454 in silver and $8,800 in gold.